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VOL. 74, NO. 5

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THE NATION'S BUSINESS

Currency traders at Salomon Brothers in New York are part of what was last year a $39 trillion global market for currencies. (Page 12)



PHOTO: T. MICHAEL KEZA

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PHOTO: BRIAN SMITH

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PHOTO: STEVE WOIT—PICTURE GROUP

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Frank Farrell, president of Grolier Electronic Publishing, holds a CD ROM that contains the same contents as the stack of volumes.



PHOTO: WAYNE SORCE

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Compact discs—a favorite among audiophiles—offer massive data storage capacity on a surface no larger than your hand. The computer establishment is greeting CD ROMs with unbridled exuberance.

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COMMENTARY

A More Open Workplace

By H. Gordon Smyth

Employee relations are not what they used to be. Personnel policies that not long ago would have been imposed from above with little or no input from below are now often the products of a far different process.

The business upswing of the 1950s and '60s made personnel experts' tasks easier because it meant more jobs and more opportunities for promotion. The prospect of advancement was a prime motivator of employee productivity.

But times have changed. Business growth has diminished. There are fewer new jobs and fewer promotions to provide incentives.

Combine these changing conditions with a work force that is better educated, more affluent and independent, that is increasingly made up of women and members of minority groups, and you have a mix that requires a radically different approach.

This requirement applies to employee relations in smaller companies as well as large ones and to companies facing either downturns or upturns.

Among the most significant developments in the workplace has been the trend toward greater employee participation in decision making—variously called the quality circle or team approach. At Du Pont, we call it organizational effectiveness, or OE. It is a slow process, but one we have found to be a great motivator of people.

Its premise is simple—the level of thinking and the ultimate performance of supervisor and supervised can be significantly and permanently improved through communication and joint participation in problem solving.

OE recognizes that employees are intelligent people who have a self-interest in making important contributions to the company's well-being and growth. The approach teaches employees to work together as self-directed teams. It gives them more responsibility and accountability for their work. And it allows them to participate in planning to make the work area more efficient and the individual more effective.

In this system, information on profitability and competitive strengths and weaknesses of the business are shared more broadly with employees. Teams of hourly employees often go to customer plants to see for themselves how their products are working or to help customers solve problems.

Du Pont began this process over 10 years ago. The results have been outstanding. We have seen productivity improvements in manufacturing, marketing and distribution of our products.

Performance can be significantly improved through joint participation.



One OE offshoot is a reduced need for direct supervisors. And we have reduced from seven to four the number of supervisory levels in many plants. This increases the supervisor's span of control—and job satisfaction.

We have also found that topics employees want to talk about often reach beyond what would have been discussed in the past. For one thing, professional people today—both men and women—are eager for information on their own career directions. When most members of my generation were starting their careers, they didn't risk seeking specifics about their futures with their companies.

Now, however, we actively encourage employees to become involved in their own career development at an early stage. We are training supervisors to be better counselors and coaches of their people. The goal is to have supervisors and employees determine jointly the type of experience and training the latter need for career development. The result will be a more satisfied employee, better prepared to contribute.

Many decisions affecting employees would have begun in the past with a study submitted to top managers, who would then determine a course of action. Now we find it is much more effective to ask supervisors and employees directly for their views on the way to proceed.

In recent years, we have brought young mothers and fathers into discussions on the question of responsibility for providing child-care facilities; we have sought employees' views on affirmative action; we have developed special training programs to foster better understanding in day-to-day work relations between whites and blacks, between men and women.

We have started a course on rape prevention in recognition of the fact that more and more of our women employees travel, work overtime or are stationed in isolated locations. (Think of it: Rape is a four-letter word that would not have been mentioned in a business setting 10 years ago.)

Such programs are of importance to our employees today. By recognizing people as individuals and focusing on what is meaningful to them, we encourage them to want to do their best and be their most productive.

This approach is not without risk. It takes a completely different mind-set than business managers used to have. Once you start the process, the initiative breeds openness in every area.

OE is working well at Du Pont. I doubt there will be any backtracking. We have a more challenging workplace, a more rewarding job situation for the individual and a better, more competitive company.

Underlying it all is the formula that productivity is output divided by people. The company that manages its people effectively will benefit from their productivity. Keeping that in mind will be a key to success and long-term growth. NB

Guest columnist H. Gordon Smyth is senior vice president for employee relations at E.I. du Pont de Nemours & Company.

HOW TO AVOID AN UNEXPECTED CHANGE IN OWNERSHIP.

Your business could be in for quite a shock if one of your partners died. You might find yourself working for one of the heirs. It might also be financially difficult, if not impossible, to buy back the outstanding ownership interests. That's a corporate takeover neither side wants and in which both sides lose. Prudential can help prevent this kind of unwelcome surprise.

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COMMENTARY

Letters

Bidding a fond farewell to James J. Kilpatrick; lawnmowers and liability; the boom in services.

Dear Mr. Kilpatrick

Editor's note: James J. Kilpatrick two months ago announced his retirement as a NATION'S BUSINESS *columnist after 12 years, prompting a heavy volume of mail from readers expressing regret at the loss of his monthly comments.*

This is a sampling from those many letters.

I shall miss your articles in NATION'S BUSINESS and trust that your work will continue elsewhere in the following years. I have a number of your articles in my files that I have kept over the years. When I read them over, they are still valid. Good luck and good health.
Phil W. Widenhouse
Executive Vice President
The Concord Telephone Company
Concord, N.C.

I have looked forward to receiving NATION'S BUSINESS each month and reading your essays. Over the years there have been only a few subjects on which I might have taken some issue with you, but for the most part, you were right on the mark.

I shall miss your monthly commentary, and I hope you will still find time to share your wisdom and concern about our great country from time to time.
Richard C. Stout
Manager, Marketing Support Services
Andersen Corporation
Bayport, Minn.

Thanks for all your years of caring about what will become of the good old U.S.A. and for expressing so well the feelings of so many of us. We are busy with everyday work and raising families, but, like you, we care!

I truly hope that kitchen fire burns for many years for you, old friend. Happy retirement.
June D. Keever
Cartersville, Ga.

Congratulations on your retirement. I have read your articles in NATION'S BUSINESS with relish for 12 years. They have been an inspiration for me in writing members of Congress.
Leroy E. Tobler
Chief Executive Officer
Contra Ltd.
Arvada, Colo.

Sorry to see you go! Yours has always been my first reading each time I get my issue of NATION'S BUSINESS.

I remember my first exposure to you when you were a speaker at a Virginia State Chamber of Commerce meeting. Certainly, you are equally at home speaking or writing—and right to the point with either method of communication.

Maybe I like your writing so much because it parallels my own philosophy.
Harold J. Kammerer
President
Broome Chamber of Commerce
Binghamton, N.Y.

I am a retired United Methodist preacher and an ardent admirer of yours. I recall the advice of an excellent psychology professor of mine at Emory and Henry College in Emory, Va., who said that truth is to be found somewhere near the middle of the road, or halfway between two extremes.

When it comes to conservative and liberal issues in politics, government or religion, I have tried to follow his advice. And I believe most of your writ-

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ings in NATION'S BUSINESS have been of that caliber.
J. Ray Stuart
Heiskell, Tenn.

I sensed from your final entry that in the midst of winter you had a longing to be free of deadlines and to refresh your own cup of life. Don't spend too much time by the fireside.

My father, a physician-surgeon who still practices, will be 75 this year. He has a favorite chair to sit, read, think and doze in. The chair is his comfort, but he views it with some suspicion. "If I stay in it too long," he says, "it will bury me."

Watch out for that fireside chair. Let us know what your next projects will be.

Rosemary Drake
Vice President, Marketing Officer
American Trust & Savings Bank
Dubuque, Iowa

More On Liability

In your February story, "Trying Times," you presented a fairly one-sided view of what is purported to be a liability insurance crisis in the United States. The author of this article does a disservice to his readers when he starts

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

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Letters

off with a story that is not only outrageous but is simply not true. The story about the overweight man who won a $1 million verdict because he had a heart attack while trying to start a lawnmower was cooked up years ago.

The writer suggests that restructuring the contingency fee system, abolishing the punitive damages in civil liability cases and fair application of the "several liability" doctrine would solve many of our problems. I find it interesting that those individuals who promote the free enterprise system wish to interfere with the free market with regard to these types of cases.

I agree the public should be outraged with the dramatic increases in liability insurance from year to year, but this outrage should not be directed at the tort law system, which is designed to compensate those who have been injured by the negligence of others.

Robert K. Schaffer
Attorney
Houssiere & Durant
Houston

Editor's note: The lawsuit you questioned did indeed take place. The $1 million damage (plus interest) award was made by a jury in Common Pleas Court in Philadelphia in 1984 against Sears, Roebuck & Company, the chain that sold the lawnmower. The plaintiff lived in Merion, Pa. The judgment was appealed but was eventually settled out of court.

I thought your article on the liability insurance crisis was excellent. Something has to be done. We cannot sue ourselves into prosperity.

Edwin J. Masters, M.D.
Sikeston, Mo.

Questionable Services

I was surprised at your Pollyanna-like view on service industries as covered in the April issue ["The Service Boom: No End In Sight"]. It reminded me of the story of a town with 100 percent unemployment that carried on a booming economy by virtue of all residents taking in each others' laundry.

As long as we yearly consume huge numbers of products and materials, we will either have to produce these goods with American labor or purchase them with scarce international exchange dollars, as seems to be the norm of late.

My father taught me 60 years ago that you don't get something for nothing. We've got to pay for everything we consume by producing the same.

William J. Miller
Elwood, Ill.

Pregnant Issues

Having watched my sister and many other women cope with pregnancy and work, I was interested in any new developments that might help my friends. I was pleased with the suggestions you presented in "Pregnant Poise," in your February issue. They are the concepts that women have worked so long and hard to bring into the business world.

I was appalled, however, by author Susan Stautberg's personal attitude toward pregnancy and her negation of femininity. She is asking women not only to hide the grace and charm that they can bring to a business, but also to give up the sharing of a forming human being. Pregnancy can bring to a business the sense of growth and continuity that keeps a business going.

Joanne Anderson
President
The Ingleshield
Wedowee, Ala.

Camelot Or Crisis?

I was concerned to read Steven Fink's "Planning For A Crisis" in April's issue, which describes a worst-case scenario of a business closing. It appears he has a less-than-admiring view of the news media and tries to assert how unfairly they treat the hypothetical CEO of a company that is closing down, putting 500 people out of work.

Fink states that the media "with depressing regularity, features an interview with a soon-to-be displaced worker and his wife and kids," and continues with the parenthetical thought "You will not, however, see the media interview any displaced worker who has landed another job closer to home with better pay and better conditions."

With 500 people suddenly out of work, is it really fair to expect the media to sing the company public relations department's version of Camelot?

Brian McManus
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PERSONAL

For Your Tax File

Deciding whether you are an independent contractor for tax purposes; a new rule on deducting bonuses.

By Gerald W. Padwe, C.P.A.

Declaration Of Independence

The Internal Revenue Service, concerned about the gap between the taxes it collects and the taxes it estimates it is owed, has long contended that a significant part of the gap can be traced to those who are classified as independent contractors. It thinks many of them may not report all or a portion of their income.

An employee, as opposed to an independent contractor, is easier to keep track of. The employer collects Social Security taxes and income taxes through withholding. On the other hand, someone who employs the services of an independent contractor need not pay unemployment taxes or withhold income taxes. The contractor must pay income taxes on self-employment income and make his or her own Social Security payments.

Before 1982, common law rules decided whether a worker was an employee or an independent contractor. The most important test was the degree of employer control over the work and the manner in which it was to be performed. But the line between employee and independent contractor has always been fuzzy.

In 1982 Congress created two categories of statutory nonemployees: qualified real estate agents and direct sellers. The IRS has now issued proposed regulations that attempt to clarify just who qualifies.

The regulations provide that a worker performing services as a qualified real estate agent or a direct seller would be regarded as an independent contractor and that the person who hired the worker would not be an employer for federal income and unemployment tax purposes.

Almost all the worker's remuneration would have to be directly related to sales or other output. Such services also would have to be performed under a *written* contract that specifies the worker will not be treated as an employee for federal tax purposes.

A qualified real estate agent would be a salesperson or one who recruits, trains or supervises others who make sales, if those supervised are qualified real estate agents themselves.

A direct seller would be one who sells products in the home or a place other than a permanent retail establishment. Traditional door-to-door salespeople of toiletries, encyclopedias, magazines and other consumer goods would fit this definition, as would sellers of products requiring installation or construction.

If the worker does not meet the criteria, the common law rules would remain the test.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

Real estate salespeople, like this one at a U.S. Homes project in Phoenix, are classified by Congress as independent contractors. The Internal Revenue Service is looking carefully at the status of independent contractors' taxes.



PHOTO: PAUL DEGRUCCIO—UNIPHOTO

Second Chance Deduction

Employers that pay year-end bonuses—and pay them later than the tax year they were earned—may be able to file amended returns for taxable years ending in 1984 and 1985 to advance the deduction into the year the bonuses were earned.

An amended return probably is not needed for bonuses deducted as business expenses in the year they were earned. But employers who delayed their deductions until the bonuses were paid can, for a limited time only and if there is an advantage to them, take advantage of recently published Internal Revenue Service regulations.

Under a clarifying provision of the 1984 tax reform act, year-end bonuses (or any other deferred compensation) can be deducted in the year in which they were earned only if they were paid out within 2½ months after the end of that year—or by March 21, 1986.

This provision is retroactive for 1984 and 1985 taxable years. For example, an employer who had a taxable year ending Sept. 30, 1985, and did not deduct earned bonuses because they were not paid by Dec. 15, 1985, can file an amended return if they were paid by March 21, 1986. Likewise, a Nov. 30, 1984, return, where bonuses were paid in June, 1985, (or even up to March 21, 1986) could be amended.

Business Outlook

Inflation: Still Heading Down

Zero inflation in consumer prices? That is Prudential Bache Securities' forecast for this year, but it may be too much to expect so soon, in the view of Edward Guay, chief economist of Cigna Corporation, a Hartford-based insurance and financial services company. However, he says, "With good monetary management, inflation could be zero by 1989."

Before economists began to factor into their mathematical equations the effects of sharply lower energy prices, consensus forecasts for inflation made just four months ago showed, on average, an expected increase of 4 percent this year, compared with a 3.6 percent rise in 1985 and 4.3 percent in 1984.

A recent survey of 49 economic forecasting firms by Blue Chip Economic Indicators, Sedona, Ariz., shows, on average, an expected 3 percent rise in consumer prices this year over last.

Mickey D. Levy, a senior vice president and chief economist of Philadelphia-based Fidelity Bank, says consumer prices could rise just 1.7 percent between last December and this December, if average crude oil prices—that includes oil contracted for some time ago as well as oil sold on the "spot" market—drop to $15 a barrel.

Pulling down the index most sharply are lower gasoline prices and a big drop in home heating and cooling costs. If energy prices were not falling, Levy says, inflation would be back to the 1984 rate of 4.3 percent.

The consensus of 49 forecasts has next year's inflation rate rising at 3.7 percent, and averaging 4 percent a year between 1988 and 1991.

Inflation rates in Japan and West Germany will be lower than those forecast for the United States, says David D. Hale, chief economist at Chicago-based Kemper Financial Services. He says the combination of cheap oil and strong currencies will keep inflation in the free world's second and third largest economies at zero this year and 1 to 2 percent in 1987. Hale also forecasts 3 to 5 percent inflation in France and Britain this year and next.

Banner Year For Housing?

The Mortgage Bankers Association's Lyle Gramley says demographic change tempers housing demand.



PHOTO: T. MICHAEL KEZA

Spurred by the lowest mortgage interest rates since 1978, the housing industry is expecting a banner year. But Lyle E. Gramley, chief economist of the Mortgage Bankers Association of America, an industry trade group, says conditions will not be as good as might be expected, considering the slide toward single-digit interest rates.

The reason? Changing demographics, he says. "The baby-boomers have grown up, and not as many first-time home buyers will be entering the market as in the 1970s."

Gramley says production of new houses will exceed an annual rate of 2 million units in the first half of the year. In the second half, he says, the pace will ebb—a slowdown that will continue into 1987. For all of 1986, he says, 1.9 million units will be built, compared with 1.8 million units last year.

Through the end of the 1980s, Gramley says, a "sustainable level of production" will be 1.6 million units a year, a far cry from the 2 million-plus units housing officials said were needed to meet the demand of the 1970s.

Homeowners, though, are finding that falling mortgage interest rates, in many cases, are making it worth refinancing mortgages negotiated when rates were between 13 and 15 percent.

Victor Cholewicki, an economist at Gramley's association, says a rule of thumb is that renegotiating is worthwhile if refinancing costs can be recouped from after-tax savings in monthly payments in two to three years, providing the house is owned for at least another five years.

For example, converting a 13 percent, $240,000 mortgage into one with a 10 percent rate could result in annual after-tax savings of $3,697. A 12 percent mortgage refinanced at 10 percent could result in after-tax savings of $2,424.

Other factors should also be taken into account before deciding to renegotiate an existing mortgage, Cholewicki cautions. The most important is the effect that enactment of one of the various tax reform proposals before Congress may have upon after-tax savings. Lower tax rates will increase the value of the after-tax savings, but reduce the value of interest deductions.

Prospects for zero inflation; savings on mortgage rates; problems in coordinating exchange rates.

Exchange Rates And The Dollar

The trading floor at Salomon Brothers in New York is one of the world's busiest. Here, currency traders execute buy and sell orders using computer terminals that make possible what last year was a $39 trillion global market for currencies.



PHOTO: T. MICHAEL KEZA

At the seven-nation Tokyo economic summit meeting May 4-6 Treasury Secretary James A. Baker will try to gather momentum behind his policy of taking some of the swing out of currency fluctuations.

The Tokyo talks come on the heels of last September's five-nation Plaza Hotel Accord that committed the United States, Japan, Germany, Britain and France to a closer coordination of their economic policies. Since then the dollar has plunged almost 20 percent in value against other major currencies, after rising rising nearly 60 percent between a low in 1980 and a peak in February, 1985.

Baker says he hopes these and future discussions will lead to creation of a formal mechanism or framework through which his counterparts and central bankers can make policy coordination a reality. This is seen as a necessary step toward realizing the goal of government manipulation of currency exchange rates.

Some oppose foresaking the current system of free-market determined rates. Karl Brunner, a University of Rochester professor who is a leading monetary expert, says it is "useless" to manage exchange rates over the long run, unless underlying monetary, fiscal and tax policies support rates of exchange governments would try to impose on markets by fiat.

"If by coordination it is meant that central bankers will spend three hours a day on the phone talking to their friends around the world to find out what the markets are doing," Brunner says, "it will lead to no good." He adds: "Instead of 'coordination,' what is needed are stable, highly predictable, noninflationary economic policies in the United States. If that happened, other nations would peg their currencies to the dollar, and there would be no need to manage exchange rates."

However, many U.S. companies say that their foreign competitors have an advantage because free markets have generally made the dollar more expensive relative to currencies of the nation's major trading partners. Floating or market-based exchange rates have caused U.S. products to be more expensive abroad and foreign goods to be less costly in the United States.

Henry Kaufman, chief economist of Salomon Brothers, Inc., a New York-based investment firm that is a leading dealer in what last year was a $39 trillion market for trading currencies, puts another twist on the problem.

He says a "formal international institution" is needed to monitor world credit conditions, and furthermore, attempts to stabilize exchange rates are doomed unless central banks have the power to coordinate conditions in the world's major credit markets.

For many, that is the rub and the reason why Baker's effort to coordinate economic policies may come to nothing, despite apparent enthusiasm in some corporate boardrooms for such policies. Coordinating credit markets could mean that domestic economic conditions might play second fiddle to international concerns. The repercussions of that could be substantial. For example, there could be a situation in which interest rates are forced up in order to maintain the dollar's value against other currencies.

Such a potentially unpopular result could undermine the Federal Reserve Board's traditional independence from day-to-day political considerations and make the goal of coordinating policies impossible to achieve.

Federal Reserve Board Chairman Paul A. Volcker was Treasury undersecretary for monetary affairs in the early 1970s, when the current system of floating exchange rates was created. As a top U.S. negotiator, he favored creation of a system that would have allowed currencies to fluctuate within broad bands, along the lines of the European Monetary System set up in the late 1970s.

Critics of the existing system argue that giving some stability to the dollar's value vis-a-vis other currencies could dampen much of the extreme volatility in the dollar's value that has occurred since 1980. A Treasury Department study of alternatives to floating exchange rates is due this fall.

Washington Roundup

Changing the vesting period; lobbying for lobbyists; flaws in oil taxes; trying to raise federal interest in union violence.

Problems In Short-Term Vesting

Senate Finance Committee Chairman Bob Packwood's widely discussed tax reform plan contains a little-noted provision that could be costly to businesses with employee pension plans, says the Employee Benefit Research Institute.

The Oregon Republican's proposal would shorten from 10 to five years the minimum period that someone can be required to work for an employer to be fully vested. Washington-based EBRI concludes that about 1.9 million more workers would have been guaranteed pensions in 1985 if the five-year standard had been in effect.

EBRI estimates the total cost to companies in pension contributions could be as much as $4.7 billion a year.

The cost to individual firms would vary widely, EBRI points out. A company with no pension plan, obviously, would not be affected. Nor would a company that already has five-year vesting. In the case of a company that has a pension plan and 10-year vesting—plus a young work force and high turnover—the cost could be as much as 40 percent of contributions.

Requiring employers to vest short-duration hires could result in lowering everybody's pension benefits, warns John N. Erlenborn, a former member of Congress and a pension expert.

Minimal benefits earned by such hires typically are paid out in a lump sum at the time of separation from service and ordinarily are used for current expenditures rather than retirement. "Therefore, earlier vesting might transform pension plans for many employees into severance-pay plans," Erlenborn recently told the Labor-Management Relations Subcommittee of the House Education and Labor Committee.

Erlenborn said that a better alternative to requiring faster vesting is encouraging growth of so-called defined contribution pension plans. Under these plans employer and, in some cases, employee contributions are defined, and the employee's retirement benefit is the sum of these contributions and investment income earned.

Preventing Cruelty To Lobbyists



ILLUSTRATION | WILLIAM COULTER

"I have come to the conclusion that the political system has evolved in such a way that immediate changes are needed."

Who said that? A representative? A senator?

No; it was Scott Sklar, a quick-witted lobbyist who has sought to influence lawmakers for seven years.

Everyone thinks lobbying "is high-chic, glamorous," says Sklar, government relations director for the Solar Energy Industries Association. "But most of it is standing around."

So, after standing around the House Ways and Means Committee for weeks last year while most Washingtonians were doing their Christmas shopping, Sklar penned his tongue-in-cheek "Lobbyists Deficit and Regulatory Reduction Act."

The document, which embodies the most-often-heard complaints of his fellow lobbyists, calls for such "reforms" as:

- Allowing lobbying organizations to introduce legislation directly, without a congressional sponsor.
- Requiring representatives and senators to wear identification by state and number of district.
- Providing lobbyists with their own House and Senate galleries.

But the most impassioned language concerns the food at receptions. When fund-raising affairs for members of Congress have ticket prices exceeding $250, Sklar wants their buffets to include brand-name libations and shrimp.

Oil Taxes And Growth

Plummeting oil prices have led some in Congress to consider new or increased energy taxes as painless, consequence-free means of raising federal revenue.

For example, Sens. Malcolm Wallop (R-Wyo.) and Lloyd Bentsen (D-Tex.) have proposed establishing a $22-a-barrel price-tax floor on imported crude oil; as the price fell, the tax would rise to maintain the $22 figure. And Sen. David L. Boren (D-Okla.) has suggested a

What kind of story have you been told about the cost of a dental plan?



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Breaking down the myths.

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Now, the myth of administration. Here are two specific cases: a company with 500 employees runs its program using one-half hour of one secretary's time a week. Let's jump to 18,000 employees. That takes 50% of one person's time, with 20% of a backup's.

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Incidentally, we've researched false claim problems. In the case of dentistry, they're virtually non-existent.

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Oil Taxes And Growth

$5-a-barrel levy on imported crude.

But there would be a reduction in the base from which the government gets its taxes. The import fee would stunt the growth of U.S. gross national product, nonresidential and residential fixed investment, consumer spending and employment, warns Laurence H. Meyer & Associates, a nationally recognized economic consulting and forecasting firm based in St. Louis.

The consulting firm predicts:

- Reductions in the after-inflation GNP growth level of .2 percent, or $8 billion, in 1986 and .5 percent, or $17.3 billion, in 1987.
- Reductions in real nonresidential fixed investment of .3 percent ($1.5 billion) this year and .7 percent ($3.7 billion) next year.
- Reductions in real consumer spending of .2 percent ($5.8 billion) in 1986 and .4 percent ($10.5 billion) in 1987.
- Reductions in civilian employment growth of .1 percent in 1986 and .3 percent in 1987, or a cumulative loss of 400,000 jobs.



The slumping cost of oil from foreign fields, like this one in the Middle East, has stimulated talk of import taxes.

PHOTO: JIM OLIVE—UNIPHOTO

A Bill To Reduce Union Violence

A majority of senators support legislation that would make union violence and extortion a federal crime.

But, because of political pressures, fewer than the required 60 may be committed to invoking cloture on a likely filibuster of this legislation, which was introduced by Sen. Charles E. Grassley (R-Iowa).

"Republican defections in the Northeast and Northwest, areas where the Teamsters Union is strong, may cost business a Senate win on this issue this year," says Mark A. de Bernardo, a U.S. Chamber of Commerce labor attorney.

De Bernardo continues: "The bill's opponents have the same head counts we have and may decide to filibuster. But this is an election year, and the Senate calendar is tight, so you don't really know how a filibuster would be greeted."

Grassley's bill, S. 1774, is scheduled for Senate floor action this month. It would amend the 20-year-old Hobbs Anti-Extortion Act to make labor violence—and threats of violence—affecting interstate commerce subject to investigation and prosecution by federal authorities.

The bill would overturn the 1973 Supreme Court ruling in the *Enmons* case that violence by union members in furtherance of a legitimate labor objective, such as gaining higher wages, is subject only to state and municipal laws.

That 5-4 ruling has been decried by business, which says federal law enforcement forces are much better equipped and more willing than their local counterparts to protect company property and people from angry strikers and picketers.

Those needing protection could include managers, security personnel, replacement workers and union members who cross picket lines.

A 540-page study published by the University of Pennsylvania's Wharton School buoys business' argument that legislative action is needed.

The study concludes that, since the *Enmons* decision, union violence has been increasing substantially each year. Violence, it says, has become a standard tactic of some unions in collective bargaining.

Updates

Comparable Worth

Recent decisions of U.S. Courts of Appeals in the Fifth, Seventh, Eighth, Ninth and 10th Circuits seem to have rendered legally dead the contention that employers must give equal pay to workers in different but "comparable" jobs.

However, these decisions probably will lead "comparable worth" advocates to push harder than ever for congressional affirmation of the concept.

The idea behind "comparable worth" is that jobs have objectively measurable values that can be compared to prove—and eliminate—sex discrimination.

Business strongly opposes any such concept on the ground that it could place authority for setting wages, now a function of the marketplace, in the hands of government officials.

The House has approved, 259-162, a proposal to study the comparable worth of federal civil servants. A similar bill by Sen. Daniel J. Evans (R-Wash.) is before a Senate Governmental Affairs subcommittee.

Import Competition Relief

Even last year's record U.S. trade deficit of more than $149 billion has not prompted Congress to expedite action on President Reagan's merger-law revision proposal.

The President's plan would, among other things, provide limited antitrust immunity to industries severely injured by import competition.

Reagan's plan would allow firms in such industries to merge or acquire each other unless there is "significant probability" that the combined companies would have the market power to "maintain prices above competitive levels" for a protracted period.

The Senate Judiciary Committee has not scheduled action on the proposal yet; House Judiciary Committee Chairman Peter W. Rodino (D-N.J.) has opposed it.

Child Support Withholding

Employers of parents who are delinquent in child-support payments may be required to withhold the payments from wages under the federal Child Support Enforcement Amendment.

For a government booklet that explains the responsibilities that this statute imposes on business, request publication OCSE No. 103 from the U.S. Department of Health and Human Services, 6110 Executive Boulevard, Rockville, Md. 20852.

Small Business Report

Will a rule change affect small firms' share of federal contracts? More on recordkeeping; contracting out postal work; capital access.

A Proposed End To Mail Monopoly

Sorting U.S. mail is one of the jobs private firms may be allowed to perform under contract, if a bill before Congress becomes law.



PHOTO: KRISTIN CALLAHAN

Pony Express riders—fabled adventurers who, for a few years in the 1860s, carried mail across the Great Plains and Rockies to complete the first overland postal link between East and West coasts—put into early practice an idea that is attracting a growing number of modern-day converts.

The idea is that of contracting to the private sector many functions now performed by highly paid U.S. Postal Service employees. Proponents say that could save enough money to keep first-class postage at 22 cents a bit longer, while creating thousands of new business opportunities.

Rep. Philip Crane (R-Ill.) has proposed legislation that would subject the quasi-governmental Postal Service to the same contracting provisions that regular federal agencies and departments must meet—letting business bid for contracts to perform tasks that are not uniquely functions of government.

One example of the entrepreneurial approach business can bring to postal operations: Last November American Discount Stamps, a Houston-based firm, started selling 22 cent stamps for 17 cents in packages that include commercial advertising. The stamps are sold in stores.

Retailing stamps, sorting letters, delivering mail in urban areas and allowing hand delivery of utility bills to residential postal boxes are among services the private sector may be able to do at lower cost than the Postal Service, says Citizens for a Sound Economy, a public policy advocacy group.

Already 5,000 private carriers deliver mail on isolated rural routes, and Rep. William Green (R-N.Y.), who represents Manhattan's Upper East Side, wants the Postal Service to experiment with private letter carriers in Manhattan.

Office of Management and Budget Director James C. Miller III proposed ending the Postal Service's monopoly on first class letter delivery last year when he was Federal Trade Commission chairman. That monopoly—covering "any message addressed to a specific person or address and recorded in or on any tangible object"—was granted in 1845. Miller sees ending it as a way to reduce a Postal Service subsidy that next year may top $800 million.

Realism Reigns In Venture Capital

Investors financing high-risk venture capital start-ups and entrepreneurs who manage fast-growing companies are in an "upbeat mood" this year, says Stanley E. Pratt, chairman of Venture Economics, a Wellesley Hills, Mass., firm that maintains industry statistics on the 150 or so venture capital companies that fund such start-ups.

Each year high-risk venture capital finances 1,000 or so start-ups—fast growing companies of which a third become big companies. Last year investors put up $2.3 billion, the third highest amount on record.

Pratt says premiums that investors are paying for stock are down from speculative peaks reached in 1983, when the number of initial public offerings hit a record. He says that acquisitions by other companies are now the most common way for investors to get their money out of such deals.

Christopher W. Brody, a managing director of E.M. Warburg, Pincus & Company, a New York-based venture capital firm, says entrepreneurs are using more conservative assumptions than earlier in the '80s, lending what he says is a "greater degree of realism to their business prospects."

Brody, who is president of the National Venture Capital Association, an industry trade group, says venture capital-financed companies are being managed with greater discipline now. And the venture capitalists who supply them with funds are "more thoughtful" than they were in 1983, he says.

Pratt says an analysis he has made shows that despite the fact that many ventures fail, the median return investors receive over the life of a venture partnership is 25 percent per year. Such partnerships frequently operate for seven to 10 years.

Bad investments usually show up in the early years of a venture capital partnership, and successes do not bear fruit until the later years, Pratt says. He adds that the only time to judge the return on venture capital is when the partnership's assets are distributed.



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Recordkeeping Ruckus

Last year's squabble over auto recordkeeping is not over. Millions of small business owners and their accountants are waiting for the Internal Revenue Service to issue another version of proposed recordkeeping regulations—the fourth since the issue first came up in 1984.

The object is to settle the ruckus over the records and the valuation of related employee benefits.

Under the current proposal, company officers and shareholders owning more than 1 percent of a business would be denied the flat $3 per day rate the IRS proposes to let others use when determining the taxable value of company-provided vehicles.

Instead, officers and shareholders would have to keep detailed records and impute the value of benefits received from the company.

Rep. Hal Daub (R-Nebr.) says that is not what Congress intended a year ago when it hurriedly passed legislation repealing the IRS requirement that "contemporaneous records" be kept. He was an author of that measure.

Daub has introduced a new bill that would impose a moratorium on enforcement of IRS recordkeeping rules, a measure he says is aimed at getting the IRS to write regulations consistent with Congress' intent.

Other proposed recordkeeping rules unacceptable to Daub include those relating to vehicles unlikely to be used for private purposes.

Such vehicles would include work trucks and vans adorned with company advertising, as well as vehicles driven home each night for the employer's convenience—for example, those used for 24-hour emergency road service.

"Overall, members [of Congress] want the IRS to get out of the business of requiring detailed logs to substantiate deductions," says Brian Sloane, a legislative assistant to Daub. Such recordkeeping rules also apply to other property that has business and personal use, like small computers.

Though they were not addressed in last year's legislation, Sloane says related rules for assigning value to non-cash benefits employees receive—such as the value of a ticket when a spouse travels with husband or wife on a company plane—should be made as clear and simple as possible.

Treasury Department officials are described as being "very responsive" to issues Daub has raised, leading to the expectation that new rules may be issued sometime soon.

Procurement Fracas

Small firms with government contracts to do such things as clean buildings could lose business if newly proposed procurement rules take effect.

Would a proposed change in federal set-aside programs mean more or fewer prime contracts for smaller companies that do business with the federal government?

Thousands of firms are pondering that question as they consider new regulations put forward by the federal Office of Management and Budget—rules OMB says would boost competition and give Uncle Sam more value for the billions spent ($17 billion last year) on goods and services supplied by small business.

The proposal, to change the test used in determining whether a contract should be set aside for smaller business, has touched off a brouhaha in the small business community and on Capitol Hill.

House Small Business Committee Chairman Parren J. Mitchell (D-Md.) says the new regulations, if adopted, would result in loss by small firms of billions of dollars in contracts.

Tim Wittig, an attorney with Lipsen, Hamburger, Whitten & Hamburger, a Washington-based law firm with small business clients, says the proposed rule change "is ill-advised and, if adopted, will result in less, not more, competition—and that will result in higher, not lower, prices."

David Baker, the OMB official in charge of procurement policy, disagrees with these predictions. The change's impact would be "minimal," he says. "All that is going to change," he says, "is that the contracting officer will have more discretion to decide, in



PHOTO: T. MICHAEL KEZA

earmarking a procurement for small business set-aside, whether a sufficient number of qualified small firms are bidding."

Under existing acquisition regulations, the "rule of two" guides federal purchasing agents.

That rule says that if at least two small firms are able to meet the contract's specifications, at reasonable prices, the contract is reserved for award to smaller companies. Such set-aside contracts totaled less than 5 percent of federal contracts awarded in 1984, most recent year for which figures are available.

Access To Capital

Businesses with less than $1 million in paid-in capital stand to benefit from a provision of the tax bill being debated in the Senate Finance Committee.

Committee Chairman Bob Packwood (R-Ore.) has incorporated in the bill a long-discussed proposal—the Small Business Participating Debenture, a hybrid between an equity and debt instrument. The SBPD is intended to give small business access to low-cost capital without the burden of high debt-service costs, while letting current owners keep their share of the company's equity.

Favorable tax treatment of SBPDs means borrowers and lenders come out ahead. Under the Packwood proposal, borrowers are able to deduct interest payments, and earnings paid to investors are treated as ordinary business expenses. Investors' interest is taxed as ordinary income, but their share of the company's earnings is taxed at the lower rate given long-term capital gains.

The SBPD concept has been kicking around Capitol Hill since 1979, when first proposed by Sen. Lowell Weicker (R-Conn.), then ranking minority member of the Senate Small Business Committee and now its chairman. Creation of the SBPD was a key recommendation of the 1980 White House Conference on Small Business.

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COVER STORY

Finding Funding

By David R. Evanson

Andrew Campbell and Gerhard Lang received a warm reception when they began asking venture capitalists for $1.5 million to $2 million to start a business.

They proposed to issue the first comprehensive directory with detailed information on American high tech companies. Their own experience in various phases of high tech had demonstrated the need for such a resource.

Venture capitalists they contacted saw great value in it for their own research on investment opportunities. But actually investing in the company, Corporate Technology Information Services—known as CorpTech—was a different story.

"We wanted to start an information company with high labor costs and a finite market," Andy Campbell recalls. "Venture capitalists prefer companies that have hard assets, low labor costs and unlimited markets."

The two men pressed on, however, contacting nearly 100 venture capital firms without success. Campbell, 41, and Lang, 40, did not let the setbacks shake their conviction that they had a winner. But it was to be a long, hard process before they were in a financial position to implement their plans for the company.

Their experience provides a revealing view of what other just-starting entrepreneurs might expect in that most basic of all business activities—raising money.

Business lore contains many stories of entrepreneurs who needed only a tiny, one-time stake to launch what became major corporations. J. Willard Marriott, Sr., for example, opened a root beer stand with the $300 his father-in-law had given him as a wedding gift.

But most entrepreneurs who are just starting out find that raising capital is a complex, frustrating and even disap-

David R. Evanson is founder of Rittenhouse Associates, a Philadelphia-based consulting firm specializing in financing young growth companies.

Joseph Riley (right) and George Surmeier of Santa Barbara (Calif.) Laboratories, Inc., observe a technician at work. Hewlett-Packard invested in their company after it developed Centerpoint, a communications and information system for executives.



PHOTO: JIM MENDENHALL

The ABCs of getting capital to get companies started—financing from venture capital firms, R&D partnerships, private stock offerings and corporate partnerships.

pointing activity. They have no choice but to embark on the search, however, because they need money for research, product development, plants and equipment or office or retail space, marketing and distribution and—if things work out—expansion.

While banks, investors and other private sources have long provided funds to new and growing businesses, the entrepreneurial explosion of the past few decades has established venture capital as an industry in its own right.

That industry now includes more than 600 funds with assets ranging from $1 million to more than $100 million. Many have growth-oriented names like U.S. Venture Partners, New Enterprise Associates and the Sprout Group.

Technically, venture capital is the pool of risk money available to help start and nurture businesses, but the term is now understood as one of several financing techniques, rather than as a generic reference to investment funds.

Knowledge of those techniques can be helpful to all small business people facing the challenge of finding financing. Four of the techniques are approaches for very young companies: dealing with venture capitalists, raising equity capital from individuals, forming research and development partnerships, and getting into corporate partnering, which is the route CorpTech eventually took.

Bank loans are also an important source of capital, of course, but often they are not feasible. A start-up company may exist on paper only and lack the hard assets banks seek as collateral. The company may not want to pledge uncertain income to debt service, or the founders may be reluctant to use personal assets as collateral.

Whatever approach newly hatched entrepreneurs take to fund-raising, they should expect the unexpected and be ready to surrender a majority role in their own company.

CorpTech was founded by two men

Gerhard Lang (standing) and Andrew Campbell of CorpTech, Wellesley, Mass., which developed a database of high tech companies, found that service firms without hard assets can run into problems raising start-up capital. They wound up with a corporate partnering arrangement.



PHOTO: T. MICHAEL KEZA

who had been working on opposite sides of the country. Campbell had been associated with the computer industry in various positions for 15 years and was running the World Trade Group, based in Portland, Me. The company helped smaller firms find foreign markets in technology and other areas. Gerry Lang, who had extensive experience in marketing high tech and other products in China, was a West Coast representative for the company.

The two wound up discussing the lack of centralized information on the high tech industry, and the idea for CorpTech was born in 1983.

Rebuffed by venture capitalists, the entrepreneurs raised $80,000 in a private stock offering, used the money for test marketing and eventually produced a pilot database that was offered for sale in advance of the planned publication of the printed directory.

A turning point came when Venture Economics, Inc., of Wellesley Hills, Mass., which is primarily a consulting and information source on venture capital and does not ordinarily invest itself, agreed to take a substantial portion of a second stock offering. Venture Economics saw the high tech directory as a product it could both use itself and sell to others.

As CorpTech progressed, it kept investors it had first approached up to date on how it was doing.

Campbell and Lang were unaware that one of those investors, the venture capital arm of E.F. Hutton & Company, had been keeping an eye on the progress of CorpTech and 100 other start-up firms. Hutton was impressed by the progress of only CorpTech and one other company.

Result: a surprise phone call to Campbell and Lang from Hutton, which

now wanted to invest in their company. Hutton put $500,000 into CorpTech in the form of convertible preferred stock. The proceeds are financing the marketing of CorpTech's printed directory, which it now offers as an alternative to the database. Each lists 12,600 high tech companies broken down in 3,500 categories.

Hutton invests in strategically related businesses through its merchant banking arm. Through its venture capital division, it invests for return on investment. James McGrath, who manages both operations, says: "When I looked at CorpTech, I did so with both my ROI venture capital hat and my strategic merchant banking hat."

CorpTech, dealing with information and technology, was particularly attractive to the giant firm, which also deals extensively in information and technology in its financial services operations.

McGrath thinks CorpTech may develop other products or services in which Hutton might share on a proprietary basis. "But for now, they need the capital, and we need a sound investment. That's what makes these things work."

CorpTech's founders retained a 35 percent interest in their company, with 22 other investors, including Hutton and Venture Economics, sharing the rest. CorpTech's first full sales year began April 1, and it is projecting sales of $3 million to $5 million.



PHOTO: PIERRE KOPP

Dr. Steven Feldon, of San Marino, Calif. (right), set up a research and development partnership, which includes Dr. David Wallace, as a financing source for development of improved ophthalmic instruments.

Corporate partnering as in the CorpTech-Hutton arrangement is becoming increasingly popular because of advantages to both sides. Larger companies can keep up with fast-moving technology by teaming up with emerging companies that have developed innovative products. And relatively unknown smaller companies gain an association with prestigious national firms.

The corporate partnering experience of Joseph Riley, president and chief executive officer of Santa Barbara Laboratories, Inc., of Santa Barbara, Calif., was different than Campbell's and Lang's. This time, the larger corporation originally sought out the develop-

Financing Techniques For Start-Ups

These are the pros and cons of four potential financing techniques that entrepreneurs might want to consider:

Venture Capital Firms

Funds are available from about 600 U.S. companies seeking entrepreneurial investments. *Pratt's Guide to Venture Capital*, published by Venture Economics, Inc., 16 Laurel Ave., Wellesley Hills, Mass. 02181, at $95 plus $5 shipping charge, includes a directory of venture capital firms.

Advantages: Heightened credibility with customers, creditors, bankers; expert managerial assistance; continuing source of financing.

Disadvantages: Loss of substantial equity, usually a majority in case of start-up firms; investor may require personnel, other changes that company founder dislikes.

Research & Development Partnerships

Company with idea for product forms R&D partnership, which sells limited partnerships to investors, pays company to do actual development. If it wishes, company can acquire sole manufacturing and sales rights to product.

Advantages: Financing appears on company books as revenue, not debt, so borrowing power is not diminished; company owners are spared dilution of equity.

Disadvantages: Royalties to partners mortgage product's future, undercut incentive for marketing.

Corporate Partnerships

Larger firm buys into smaller one for joint activities related to latter's product.

Advantages to smaller firm: Association with larger, established company; access to financial support and management expertise; larger markets.

Disadvantages: Frustration with decision making process of larger partner; risk that product cannot be integrated with larger company's output; possibility that larger company will downgrade partnership.

Private Equity Placements

Sale of stock to private individuals, who, in many cases, are relatives or friends of entrepreneur.

Advantages: An alternative source of funds after rejection by venture capitalists or banks because of defects in business plan.

Disadvantages: Frictions with family and friends if returns do not live up to expectations; lack of tight screening by knowledgeable investors might encourage unwise ventures.



"This is the business that turned our **dreams into reality"**

A true story by Wilton Hildenbrand

I never made "real money" until I quit working for someone else and started my own Duraclean business

"When I was with the New York City Fire Department—with a wife, and three children to raise—I felt I spent most of my time putting out financial fires at home! It occurred to me that I could never achieve the financial security and independence we craved working for someone else. The obvious answer—start a business of our own. But what? Sure, we had been able to



put a little money aside, but nowhere near what it takes to start most businesses. I looked for something I could get into with a small amount of borrowed money.

So Easy to Get Started

"Marge, my wife, discovered the perfect answer. She had run across a Duraclean story—a message much like this one—and we looked into it. Well, believe me, when we saw the superior Duraclean service demonstrated and found out what a low investment it took, we were sold.

"With a fireman's schedule, I was able to start out in my spare time. (I didn't want to burn all my bridges behind me.) Marge and I mailed out company provided mailings describing our service and soon the phone began to ring. She made the appointments. I rendered the service. When we discovered how much money there was to be made in a Duraclean dealership, I took early retirement from the fire department. Before long, I had to hire part-time servicemen. Soon, profits paid for our first van. Now most of the work is done by our four servicemen. Marge schedules the jobs, sends out mailings and does the bookkeeping. I do the job estimating, special spotting jobs and contact new prospects."

Now at this point you're probably asking yourself, what is this Duraclean business Wilt Hildenbrand keeps raving about? Well quite simply, it's a unique, superior system for cleaning upholstered furniture, rugs and carpets (don't confuse it with "steam cleaning" or ordinary shampooing methods). It not only cleans but restores and revives colors. It does not wear down the fiber or drive the dirt into the base of the rug as ordinary cleaning methods do. Instead it *lifts out* dirt by means of an absorbent dry foam.

Today the Hildenbrands provide cleaning for banks, country clubs, churches, offices, hotels, motels, funeral parlors, theaters and homes.

Carpet and furniture stores gladly recommend Duraclean to customers. It helps them close sales. 45% of the Hildenbrand's business is from customers' referrals and repeat orders.



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Finding Funding

Janet Ronkin, seated with students, and her husband, George (top right)—shown with prospective franchisees at the Ronkins' base in Plantation, Fla.—used the private placement route to raise funds to expand College Bound, Inc. The firm helps prepare young people for college entrance examinations.



PHOTO: © 1986 DEBRA SHULAZ

ing enterprise, rather than vice versa.

SBL was formed to develop a communications and information computer system it calls the Centerpoint, which is designed for joint use by executives and their secretaries. The manager's console has a screen and telephone; the secretary's has those two components plus a keyboard and another terminal for data entry.

Centerpoint, according to SBL sales literature, gives executives "instant access to an enormous array of information, communications and office automation resources; a quick retrieval filing system; a time management scheduling system; and advance telephone, dictation and graphic presentation systems ... each symbolized by a pictorial representation on the screen." The company needed capital to go into full production and develop a national marketing program.

After seeing a Centerpoint demonstration, a representative of Hewlett-Packard, the giant electronics company based in Palo Alto, Calif., approached Riley. It was agreed that Hewlett would take an equity position in SBL, and the latter would provide Hewlett with Centerpoint units to sell on an original-equipment-manufacturer basis.

But, Riley says, "We decided it would take too long and be too expensive to get on an OEM basis." The agreement with Hewlett-Packard was changed to a co-marketing arrangement under which the two firms would share technology, to enable Centerpoint to link up with Hewlett mainframes. SBL products would initially be marketed through four Hewlett offices as a stand-alone system or as an add-on to the Hewlett-Packard mainframe.

Both parties benefited. SBL got a substantial influx of capital at a critical point, an opportunity to enhance its product and heightened prestige through association with the big company. It also acquired low-overhead marketing outlets in Hewlett-Packard offices. Riley estimates that "the cost to market out of an HP office is about 20 percent of what it would cost us to open our own sales offices." Hewlett-Packard, on the other hand, was able to offer its customers the innovative Centerpoint system, give them another reason to buy its mainframe computers and gain access to the market for "keyboardless" executive automation products.

James B. Morris, founder of Logic Automation, Inc., in Beaverton, Ore., is an example of entrepreneurs who successfully approach venture capitalists. A consultant on computer-aided design and engineering, he had become interested in developing a library of software for use in that field. He eventually sought capital to shift his business from a consulting to a software products company.

He examined the various financing alternatives and decided to go the venture capital route. "The people I'd seen who had gotten funds from private investors or by bootstrapping [putting retained earnings into growth] were the less sophisticated business people," he says. "The successful ones were getting venture capital."

Most venture capitalists foster a company from start-up to the point where it is ready for a public offering or merger. Then, says Patricia Cloherty, general manager of Tessler & Cloherty, a New York venture capital firm, "it's time for a new set of investors to come in and assume the next level of risk."

The venture capitalists buy shares in an infant company and, if the company succeeds, eventually sell them at a much higher price. If the company goes public, the shares are sold in the public equity markets. If it is acquired, the shares are sold to the acquiring firm.

Venture firms usually specialize. One might invest primarily in start-up medical firms; another might concentrate on software firms that have reached a point of positive earnings.

When he decided to seek venture cap-



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Finding Funding

Venture capitalists put a high premium on the managerial abilities of a start-up enterprise, says Stanley Pratt, president of Venture Economics, Inc., of Wellesley, Mass. The firm's guide to venture-capital financing is a best-seller (see box, page 24).

ital for his planned move into software products, Jim Morris took the required first step—he drafted a written business plan that included descriptions of the products, marketing strategy and personnel, financial statements and five-year forecasts of cash flow, profits or losses.

That was in the summer of 1984, and he assumed that funding was imminent. "I was naive enough to believe that, after you scratched together a business plan, people began throwing money at you," he says. But by the end of the year he realized that no funding was in sight. "That sent us back to consulting," he recalls.

His experience was not unusual. A venture capitalist typically sees 20 business plans a week, and the competition is fierce. Many entrepreneurs go looking for capital convinced that their idea for a new product or service will dazzle investors. But the key considerations to those judging a business plan are management and growth.

Morris' problem, he now recalls, was that he had an impressive staff of engineers but no professional managers. "The venture capitalists saw a glimmer of opportunity in what we were doing," Morris says, but they told him that "I had to address the managerial issues in sales, marketing and distribution."

He persisted, revising his business plan to meet the objections. Last December, a year after his original target date, he worked out an arrangement with two West Coast venture capital firms. Logic Automation raised $1.5 million by issuing 2,459,000 shares of convertible preferred stock priced at 61 cents each. They represented 59.8 percent of the firm's equity.

The venture capital companies took seats on Logic Automation's board, which helps them protect their investments and gives the company more of the managerial expertise it had been lacking.

Other entrepreneurs' problems with venture capitalists stem not from managerial requirements, but from failure to meet standards of growth. Venture firms generally expect only one success in every 10 investments they make, so that one success must be substantial enough to give them a positive return on an entire portfolio.

In general, says Patricia Cloherty, venture capitalists expect to see a 25 to 50 percent annual pretax growth in their portfolios.

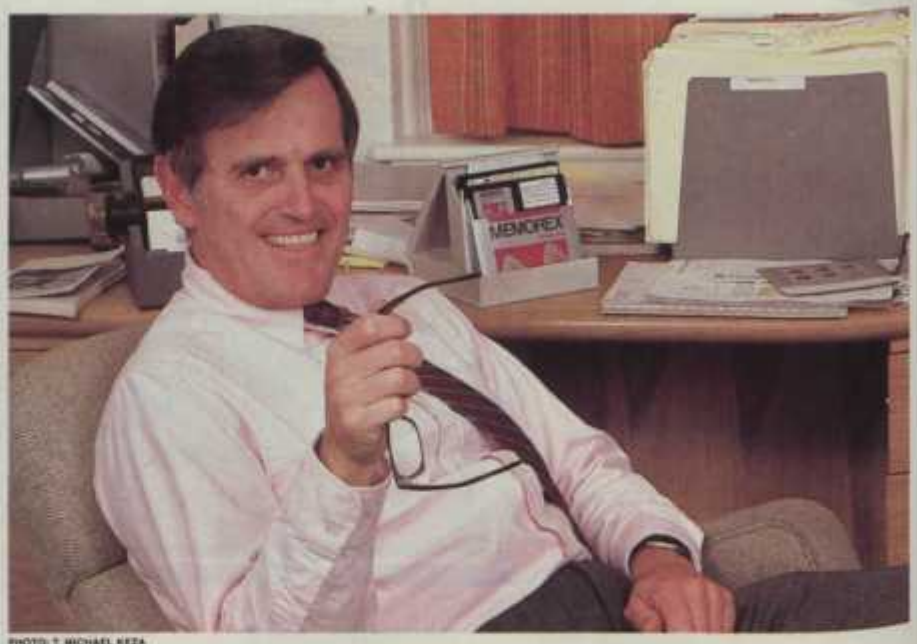


PHOTO: T. MICHAEL KEZA

The question of valuation—the total worth of the firm—can pose a dilemma for entrepreneurs. They frequently find themselves weighing how much equity they want to give up against how much money they want to raise.

Like public companies, private firms are often valued on a multiple of their earnings, but there is no such easy standard for a company that is just starting. In dealing with venture capitalists, entrepreneurs often project their earnings for five years. Working backward, a present value for the company is determined on the basis of future growth. "Pricing the deal" involves considerable negotiation between entrepreneur and venture capitalist.

Many entrepreneurs do not succeed in getting funding from venture capitalists or banks. Often they turn to individuals, sometimes referred to as "business angels."

That is what Janet and George Ronkin, of Plantation, Fla., did when they decided to franchise Janet Ronkin's College Bound, which helps high school students prepare for the Scholastic Aptitude Tests that are a key factor in college admission decisions.

When demand for their service stimulated expansion into three locations, the Ronkins saw the possibility of a national market via franchising. They needed capital, however, to support franchisees with advertising and administrative services. Otherwise, George Ronkin says, "we would have been forced to sell franchises to possibly unsuitable candidates just to get the fees."

They considered a public offering, a joint venture and a bank loan before deciding on a private placement.

The technique served them well. Selling equity enabled them to avoid interest expense and retain a borrowing capacity in the event they were required to use it. The capital raised provided maneuvering room in which the Ronkins could screen franchisees carefully.

They were able to sell their offering themselves, without a broker, largely because parents whose children had gone through their program were eager to invest. The Ronkins started selling last September and, by the end of the year, had sold 200,000 shares of common stock at $1 a share.

One of the most common sources of private capital is the one to which many entrepreneurs turn first—friends and relatives.

While procedures vary in venture capital placements with individuals, there is one important common denominator—everyone putting money into the business is doing so in anticipation of a profit. The entrepreneurs who obtain the financing must keep that constantly in mind, investment advisers say, and sooner or later must provide their investors with a return. "Friends and relatives can quickly become adversaries when things don't go well in a business," one expert says.

Sometimes there is need for funding even before a product exists. Research and development partnerships are often used in such circumstances.

James Morris of Beaverton, Ore., determined that venture capital was the best financing technique for him when he decided to shift his company from consulting on computer-assisted design to producing software for that process. But raising funds was more difficult than he expected.



PHOTO: DAVID FALCONER—BLACK STAR

That is the route Dr. Steven Feldon, of San Marino, Calif., took to develop improved ophthalmological instruments.

An R&D partnership is capitalized when a company or individual as general partner sells limited interests to investors. The partnership agrees to pay the company or individual for expertise and facilities used in coming up with a marketable product.

When a product is developed, the company can acquire exclusive manufacturing rights from the partnership or buy the technology outright. The limited partners receive tax deductions and, eventually, royalties on the product for a specified number of years. Usually, the idea is that tax benefits and royalties will give investors an annual pretax return of 30 to 50 percent, depending on the risk. If no product results, the losses are assigned to the limited partners.

A major advantage to the company is in the accounting treatment of money received from the partnership. It shows on the income statement as "contract revenue"; money borrowed for the same purpose would appear as a liability.

Ophthalmologist Feldon's first experience with an R&D partnership did not achieve his goals. Manufacturing rights to the resulting product, a device for measuring the eye's curvature, were sold to a major optical company in exchange for a commitment of royalties from sales. But the buyer never made the product. There were no royalties.

In his second venture, Feldon set up a partnership with a provision that, if the research was successful, manufacturing rights would go to a firm he would organize. Automated Ophthalmic R&D Partnership was capitalized with $240,000 in limited partnership interests, and it developed improved versions of three instruments—a tenometer for measuring pressure inside the eye, a pachymeter to measure corneal thickness and a biometric ruler to measure eye length. All the new products are hand-held and battery-operated. They are easier to use than their desktop predecessors and sell for less.

Feldon and some associates formed Oculab, Inc., to manufacture and market the products from the partnership. "From our first experience," he says, "we learned that only people with sufficient motivation get products into the market. In that sense, forming our own business was necessary."

Oculab was capitalized with a private placement of $876,000 last October, and production began in December. The firm enjoyed several advantages from using an R&D partnership. "First," says Feldon, "Oculab didn't have to spend one dime on a product that wasn't marketable. And we didn't have to do any primary R&D. We started out knowing we would have a product."

Also, he says, Oculab's founders were spared the dilution of their holdings that would have occurred if additional stock had to be sold to finance development.

At the same time, entrepreneurs considering R&D financing should be aware that there can be significant costs associated with this technique. By promising investors in the limited partnerships royalties over a period of years, a firm is effectively mortgaging a product's future.

The limited and general partners in Automated Ophthalmic R&D will receive 10 percent royalties for seven years.

"As a rule of thumb" says Irving Weiman, vice president of Prudential-Bache R&D Funding Corporation, San Jose, Calif., "R&D partnerships should provide an internal rate of return equal to three to five times the initial investment."

Another cost of R&D funding is its effect on a firm's income statement and valuation. If the return on a product is low because of the added expense of royalty payments, there may be no incentive to market the product. And the lower earnings as a result of royalties will decrease a firm's valuation measured as a multiple of earnings, which could cause problems if the firm decides to go public.

Thus, an entrepreneur seeking funds has to weigh the obvious advantages of the R&D approach against the disadvantages. But every form of outside funding carries a price in terms of interest charges, surrender of equity, dilution of managerial authority and other costs. It is up to the entrepreneur to choose the method offering the most favorable terms through which the company's goals can be met.

Ophthalmologist Feldon found that selling the manufacturing rights for his product to a major corporation was a relatively easy approach, but it did not get the product to market or produce the income he had anticipated.

And many of his fellow entrepreneurs might think that James Morris of Logic Automation surrendered too much in selling 60 percent of his equity. But he has no misgivings: "I'd rather have a small piece of something big than a big piece of something small."

Morris points out that his alternatives were to remain as a consultant in a limited market or accept a financing arrangement that would permit him to move into a growing market where there was virtually no competition.

"The choice," he says, "was obvious." NB

To order reprints of this article, see page 89.

Fleet Vehicles Take A High Road

By Bob Gatty

Mel Ott remembers when "you could spot a fleet car from 100 yards away." Not any more.

Yesterday's "plain Jane" fleet automobile has undergone a Cinderella-like transformation, says Ott, vice president and general manager for Vanderburg Leasing Company, Grand Rapids (and no relation to the Baseball Hall of Famer). "It is no longer a stripped-down, nondescript, 'just transportation' vehicle." In fact, today's fleet vehicle is usually indistinguishable from any other car in the parking lot and often is better equipped.

But increased cushiness is just one of the changes fleets have undergone. High tech, a changing economy and the constant flux of government regulations all influence today's fleet-buying decisions as managers seek to get the most for their transportation dollar.

Fleets come in every shape and size. The local pest exterminator may use two vans. A major international company will have thousands of vehicles on the road. There are luxury cars for the high level executive, intermediate cars, station wagons, vans, and now, increasingly, the minivan.

Domestic makes dominate, but as companies large and small are ever more conscious of the bottom line, and as import restrictions are modified, foreign models are beginning to make inroads.

How fleet vehicles are carried on the company's books also varies. They may be owned outright, leased from a dealer or a leasing company, owned by the employee, or some combination of these options.

For many companies, fleet vehicles are a significant budget item. With the average intermediate car price hovering at about $10,000, even small fleets represent a sizable investment. Changing financing rates, the vagaries of the resale market and new tax laws have led management to seek ways to maximize fleet investments.

The oil crisis of the mid and late 1970s was the catalyst for change in the fleet industry, analysts say. As rising gas and oil prices cut into profit margins, fleet costs attracted new management interest.

"We used to be part of the accounting department," recalls Elizabeth Linck, fleet administrator for Chesebrough-Pond's, Inc., Westport, Conn.

"The choices of vehicles were limited. After the fuel crunch, the company realized the importance of the company car. It got the attention of upper level management. They were more concerned as to how the fleets were being run."

Downsizing of cars was the obvious answer to the new emphasis on fuel efficiency and reliability—a trend nearly a decade old. Last year the consulting firm of Runzheimer International, Rochester, Wis., surveyed 1,422 business executives representing 579,395 vehicles. Of the respondents, 57 percent reported using more economical vehicles over the past two years to control fleet cost. That figure rose to 72 percent for federal government fleet vehicles. However, the survey showed that as the car size went down, options went up in response to a tighter resale market.

Today's typical fleet car is a four-cylinder, intermediate-size model like the Chevrolet Celebrity, the Plymouth Caravelle, or the new Ford Taurus or Mercury Sable. It comes equipped with such options as air conditioning, power door locks, tilt wheels, rear window defrosters and AM/FM cassette radio. Executive cars often are slightly more luxurious or have a wider variety of options. For example, executives at Hallmark Cards, Inc., Kansas City, Mo., choose among models like the Oldsmobile Delta 88, the Chrysler Fifth Avenue and the Olds Regency 98.

"Cars are no different than homes," says Douglas S. Brown, president of St. Louis' Enterprise Fleets, Inc. "We're seeing certain things like air conditioning added. They once were considered frills. Now they're standard."

With the average fleet life of a car about 27 months and 50,000 miles, the smart fleet manager is just as concerned with resale value as initial cost, stresses Ott.

"We always recommend options because they enhance resale value," he says. "There is a problem with getting rid of high mileage cars, so anything that improves their value is worth it."

Mike Miller (left) and Cliff Lanham inspect auto maintenance records at Peterson, Howell & Heather, of Baltimore. The firm offers a maintenance control program for fleets that allows a driver to call in case of a breakdown; an analyst refers the driver to a repair facility.



PHOTO: T. MICHAEL KEZA

Fleet cars, once stodgy and stripped down, have blossomed with options and style. And that, say the experts, is just good business.

At Echlin, Inc., a small automotive parts manufacturer in Branford, Conn., employees are given first option on buying the fleet cars they drive. Echlin Treasurer Richard A. Wisot reports that about 60 percent of fleet cars are bought either by the driver or another company employee.



PHOTO: HOWARD GOLDSTEIN

At Echlin, Inc., a small automotive parts manufacturer in Branford, Conn., employees are given first option on buying the fleet cars they drive. Echlin Treasurer Richard A. Wisot reports that about 60 percent of fleet cars are bought either by the driver or another company employee.

Wisot says that provides an excellent incentive for drivers to take good care of vehicles. Cars not sold are auctioned, typical of many fleet resales.

Fleet managers often offer employees a selection of vehicles according to established classifications offering certain options. Additional options are provided at the employee's expense. For example, Echlin gives its employees $350 toward options if they choose four-cylinder cars.

Fleet managers have found that giving employees leeway in their selections keeps drivers happy and promotes better maintenance.

"Drivers take their cars very personally," notes Wisot. "The cars are a big part of their lives."

Linck, whose company's fleet numbers 425 vehicles, says many Chesebrough-Pond's salespeople ask for advice in choosing their next car or van.

The minivans are beginning to make a big dent in the fleet industry, often replacing the station wagon.

"There is a trend to downsize to the minivans," observes Ott. "They are becoming a more dominant part of our business, and I see this trend continuing. The full-sized van is often too big, and it is less fuel-efficient. The mini is filling a vacuum."

General Motors claims over 50 percent of U.S. fleet sales.

"GM's penetration of the fleet business is higher than in retail," reports Frank Vader, manager of staff operations for GM's fleet and government sales section. Fleet deals are handled through GM dealerships.

Imports are moving up, particularly with light trucks and vans. Many foreign manufacturers all but wrote off the fleet business initially because of the voluntary restraints on Japanese imports that severely limited vehicle availability. With the high demand for imports, dealers had little incentive to offer the competitive prices needed to attract fleet business.

"The Voluntary Restraint Agreement gave us very little opportunity to try to maximize our performance with passenger cars," explains Jerry Murphy, fleet and leasing manager for American Isuzu Motors, Inc. "So we have focused our primary effort on light duty pickup trucks."

Isuzu developed a marketing campaign to attract fleet sales in industries using light duty trucks. It includes advertising in trade publications, attending trade shows and sending direct mail to targeted commercial groups. The company also established an incentive program for dealers.

The fleet market has been identified for dealers as the local or regional smaller commercial fleet user that may not be serviced by the large fleet organizations. The dealer identifies the smaller unit in his local market and goes after the business.

Now three years old, the program is paying off, says Murphy. Isuzu claims the highest percentage of fleet sales to total small-truck sales in this country of any manufacturer, including the domestics.

"Fifteen percent of our light duty truck sales are fleet sales," boasts Murphy. "We're proud of that. The smaller companies seem to appreciate the attention."

The commercial market is price-sensitive, says Murphy, and therefore will respond to the impact of quality and price together.

"There is a residue of 'buy America' sentiment around, but we haven't felt it very much," he notes. "That leads us to believe that this portion of the market is less sensitive to 'buy America' than we thought."

Toyota also is seeking to penetrate the fleet market and says it supplies more imported fleet cars and small trucks than anyone else.

"The availability has restricted the car growth," admits Donald V. Esmond, Toyota's national fleet and truck manager. "We haven't been able to grow as fast as we'd like."

Toyota's biggest customers for fleet cars have been the major car rental

MANAGING YOUR BUSINESS

Fleet Vehicles Take A High Road

companies. Like Isuzu, Toyota has made its greatest gains in light trucks, with fleet sales accounting for about 10 percent of trucks sold.

Esmond says the need for economy and efficiency is a major factor in the imports' drive for a larger chunk of the fleet market.

"Imports are ideal for fleets because of their good fuel mileage, low maintenance records and strong resale value," he says.

Several factors will drive Toyota's success in the fleet market. A new U.S. plant in Georgetown, Ky., will increase available supplies for fleet accounts, and dealers expect to offer fleet accounts competitive prices. Esmond says Toyota is also implementing special programs like courtesy deliveries and special order opportunities to help the dealer better serve the fleet buyer.

Leasing companies play a large role in the fleet industry, allowing business customers to maintain numbers of vehicles without making huge capital investments. This can make good business sense, experts say, particularly if the saved capital can generate enough income to cover leasing costs. The Runzheimer survey showed that 31 percent of the companies owned their vehicles, while 20 percent leased exclusively. Fifty-four percent had some leased vehicles in their fleets. David P. Lefever, executive director of the National Association of Fleet Administrators, says his members split about 50-50 between owned and leased fleets.

Today, leasing companies offer numerous management services not only to their lessees but to fleet owners as well.

Peterson, Howell & Heather, of Baltimore, offers a maintenance control program that allows clients to simply call a toll-free number if a breakdown occurs. The firm's analyst then checks the vehicle's history on his computer, and the driver is referred to a repair facility. PHH deals with the garage and orders the repairs. All bills are handled through PHH. Other PHH services allow a company to monitor vehicle and driver performance, keep track of personal use of vehicles and stay up to date on tax requirements.

Gelco Corporation, of Eden Prairie, Minn., is another major leasing company that is expanding services beyond simply providing vehicles.

"Fleet management is really a system for managing a significant company asset," says William Shively, Gelco senior vice president for fleet management. "Upper management is recognizing that and is paying more attention to fleet management."

Gelco's goal is to tailor management services to the particular needs of the client. Many clients prefer to pick and choose among these new offerings.

"I think expense control reporting is very critical," offers Linck of Chesebrough-Pond's. "But I'm opposed to fleet-offered maintenance. I've always thought it wrong to put all your eggs in one basket. I think fleet managers should take advantage of national accounts offered by independent vendors and major repair firms. But to use all the benefits offered by a fleet administrator is to have them run the fleet. I want to run my fleet."

Widespread use of computers both by the leasing companies and by their clients makes this new trend toward systems management possible.

"Computers are extremely important to us," says Enterprise Fleet's Brown. "Many of our clients access our computer with their own. They use it to order cars, keep track of drivers, and check car repair records and fuel mileage. It has significantly reduced telephone and people time. There is no question that this is the trend of the future."

These records are kept either by the leasing company or the fleet owner. Drivers submit monthly reports that are entered into the system. The resulting reports are important guides to spotting potential trouble spots and in determining which cars to buy. More than 30 companies are now selling software to keep track of various aspects of fleet management.

Computers are also extremely valuable at a time when government regulations affecting fleet vehicles are changing. The biggest problem, fleet managers say, is not in complying with Internal Revenue Service regulations, but in figuring out just what the IRS wants. Several sets of temporary tax regulations governing personal use of company cars have been issued.

Some lessors and fleet managers have predicted that government regulations may encourage companies to stop providing company cars, particularly for executives. But others disagree.

"I don't see us changing our program and not offering cars to our people," says Hallmark's Helen Bland. NB





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Healthy Signs In Worker Benefits

Survey data indicate that maybe—just maybe—there's light at the end of the health cost tunnel for employers.

By James R. Morris

Efforts to hold down the runaway rise of employers' health insurance expenses appear to be paying off. A new survey of employee benefits—those so-called fringes that make up so large a part of the cost of doing business—provides early indications that the rate of increase in company health care payments is subsiding.

The survey, by the U.S. Chamber of Commerce, shows that the cost of benefits per hourly employee averaged $7,842 in 1984, up 41 percent from the 1979 average of $5,560.

That increase is, of course, not something to make employers jump for joy. But there is a brighter side: The rate of benefits' rise, which first began to level off nine years ago, fell every year during the five-year period. The rise from 1979 to 1980 was 9.4 percent; it was only 3.4 percent from 1983 to 1984.

For the first three years, the picture was different for health insurance, which rose at an increased rate year by year. Then—in part reflecting intensive business action to achieve more effective management of health care costs—there was a change that is good news for employers.

That is so even though employers' insurance expenses leaped 84 percent during the five years covered by the survey. Nine tenths of their insurance cost is for health care insurance (the balance is for life insurance).

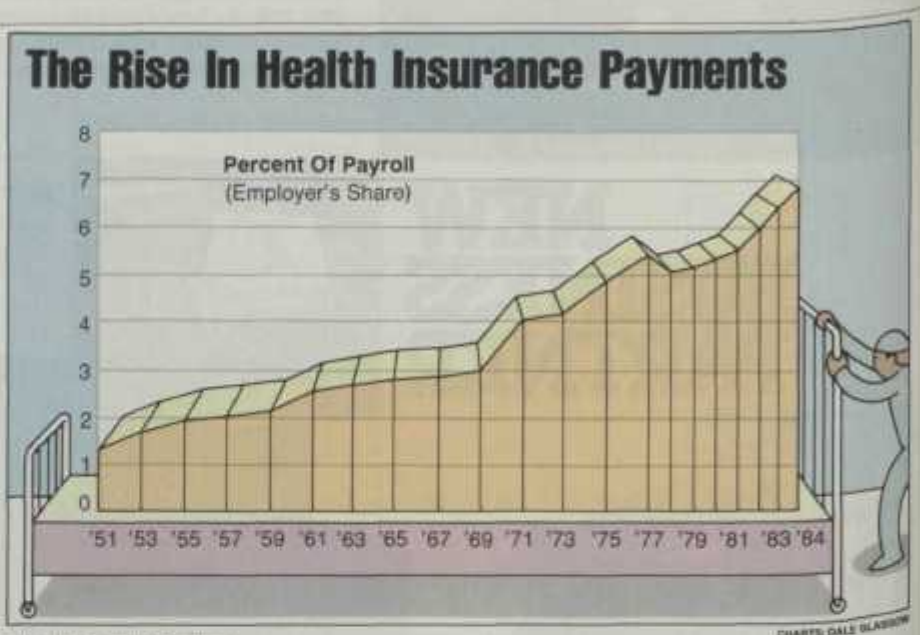
The following figures showing year-by-year percentage increases just for the health care portion are revealing:

1979-1980	10.3%
1980-1981	12.9
1981-1982	18.7
1982-1983	14.6
1983-1984	8.3

Reporting in the survey were 1,154 firms of all types and sizes. Forty percent have fewer than 500 employees, but some have 10,000 or more.

The U.S. Chamber began conducting these surveys biennially more than three decades ago and has done them annually since 1977. They cover hourly employment in most of the private sector—agriculture is the main exception—and a small part of the government sector.

James R. Morris is a consulting economist and former director of survey research for the U.S. Chamber of Commerce.



Source: U.S. Chamber of Commerce

Total cost of employer-paid benefits in 1984 for all employees in the country—salaried as well as hourly rated, in all industries and in federal, state and local governments—is estimated at $610 billion by the U.S. Chamber's survey research section. It estimates the figure for the year before at $550 billion.

Preliminary estimates suggest figures of $650 billion for 1985 and $695 billion for this year.

There are two principal kinds of benefits in the hourly employee survey:

- Nonwage payments for insurance, private pensions, Social Security, unemployment and workers' compensation, profit-sharing, and other such benefits—an average of $5,461 per employee in 1984.
- Wages paid for time not worked, such as vacations, holidays, rest periods and sick leave—an average of $2,381 per employee.

Employers paid employees for an average of 28.8 nonworking days in 1984. These included vacations—12.4; holidays—7.2; paid rest periods—4.8; paid sick leave—3.3; and time off for jury or National Guard duty, family emergencies and other paid time not worked—1.1.

Chamber surveys classify benefits by group. The fastest growing and most costly group of benefits includes health and life insurance, pensions and other agreed-upon benefits such as dental insurance, disability insurance and company-provided meals.

Employers paid an average of $2,896 per employee for such benefits in 1984, up from $1,844 in 1979—a 57 percent increase.

Legally required payments, including Social Security and unemployment compensation taxes and workers' compensation, make up the next most costly group of benefits. Employers paid an average of $2,054 per employee for these benefits in 1984, up 50 percent from $1,368 in 1979.

Paid vacations, holidays, sick leave, jury service, etc., rose 38 percent from $1,434 in 1979 to $1,982 in 1984.

The five most costly individual benefits in 1984 were insurance—$1,581; Social Security—$1,408; vacations—$1,023; pensions—$1,011; and holidays—$594. They add up to $5,617, which is 72 percent of total benefits.

As noted earlier, health care costs have risen dramatically. Insurance costs soared from $43 per worker in 1951 to some $1,400 in 1984.

Employers provide other health care benefits, too.

Included in the 1984 survey data are about $262 for the health portion of

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Healthy Signs In Employee Benefits

Social Security taxes, another $262 for workers' compensation, and $112 for short- and long-term disability. Dental insurance came to $85, and paid sick leave averaged $273 per employee.

What employers pay in Social Security taxes also has increased sharply over the years: It was up from $47 per employee in 1951 to $1,408 in 1984.

As a percentage of payroll, private pension payments peaked in 1977 and have drifted downward since then. Indeed, pension costs as dollars per year per employee actually declined somewhat in both 1983 and 1984.

Fully 75 percent of the benefits reported in the 1984 survey were taxable or were mandated by legislation.

- Legally required benefits—Social Security, railroad retirement and unemployment taxes and workers' compensation payments—came to $2,054, or 26.2 percent of benefits.
- Benefits taxable in the year they are paid—such as pay for rest periods, vacations, holidays and sick leave—amounted to $2,381, or 30.4 percent.
- Tax-deferred benefits of $1,460—18.6 percent of the total—included pension, profit-sharing, thrift plan contributions and disability insurance.

The major tax-exempt benefits included life (up to $50,000) and health insurance, dental insurance and education (tuition refunds, etc.). They amounted to $1,721, or 21.9 percent of benefits.

Employee benefit costs varied widely among companies, ranging from less than $3,500 (34 firms) to more than $13,000 per employee (42 firms) in 1984.

Benefit costs varied widely among industries also, coming to only $3,956 per employee for department stores but reaching $10,343 in primary metals industries.

Manufacturing firms had higher benefit costs than other firms for Social Security taxes, unemployment compensation, workers' compensation, life and health insurance premiums, vacations, and paid holidays.

Nonmanufacturing firms had higher costs for pensions, sick leave, employee meals furnished free, and discounts on goods and services bought from the company.

All except 10 of the 1,154 respondent firms reported making payments for employee insurance, but 209 reported no payments for employee pensions.

Interestingly, though benefit costs rose only 3.4 percent over the year before, hourly average wages increased 3.9 percent.

In past surveys, with the exception of 1982, benefits increased at a more rapid rate than wages.

Overall, benefits came to 36.6 percent—same as the year before—of gross payroll cost, which includes pay for time not worked, the traditional measure in these surveys. The author has developed a new measure that relates pay for benefits to pay for time actually worked. It was 41.1 percent for 1984.

Emerging from the survey is a picture not only of continued growth in benefit costs, though at a reduced pace, but also of changing composition of those costs, such as the proportionate decrease in pension costs vis-a-vis Social Security taxes.

Such changes in benefit costs are likely to continue as companies make adjustments to reflect new market conditions.

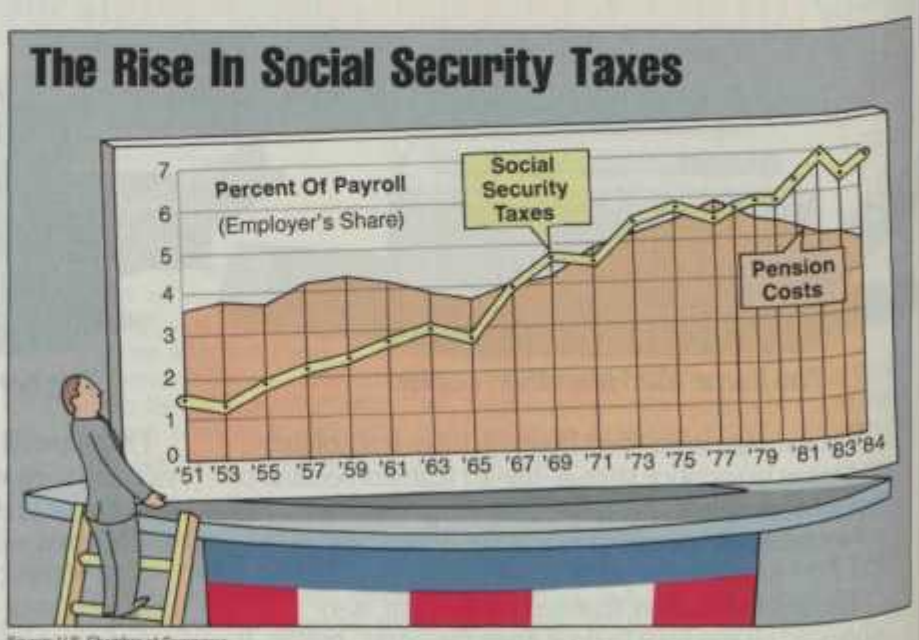
Employee Benefits 1984, a 36-page report that includes special sections on insurance and pensions and Social Security taxes, can be bought for $20 a copy from Publications Fulfillment, U.S Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062, or by telephone at (301) 468-5128.

Annual Employer-Paid Benefits Costs, Per Employee

	1951	1961	1971	1981	1984	Percentage increase 1951-84
Legally required: Social Security, unemployment compensation, workers' compensation and railroad retirement payments.	$119	$256	$522	$1,609	$2,054	1,626
Private pensions, insurance, employee meals furnished free, short- and long-term disability, etc.	185	398	824	2,260	2,896	1,465
Paid rest periods, lunch periods, wash-up time, etc.	64	131	280	596	399	523
Paid vacations, holidays, sick leave, jury service, etc.	211	382	755	1,779	1,982	839
Profit-sharing payments, thrift plans, etc.	65	87	163	383	511	686
Total	$644	$1,254	$2,544	$6,627	$7,842	1,118

Source: U.S. Chamber of Commerce

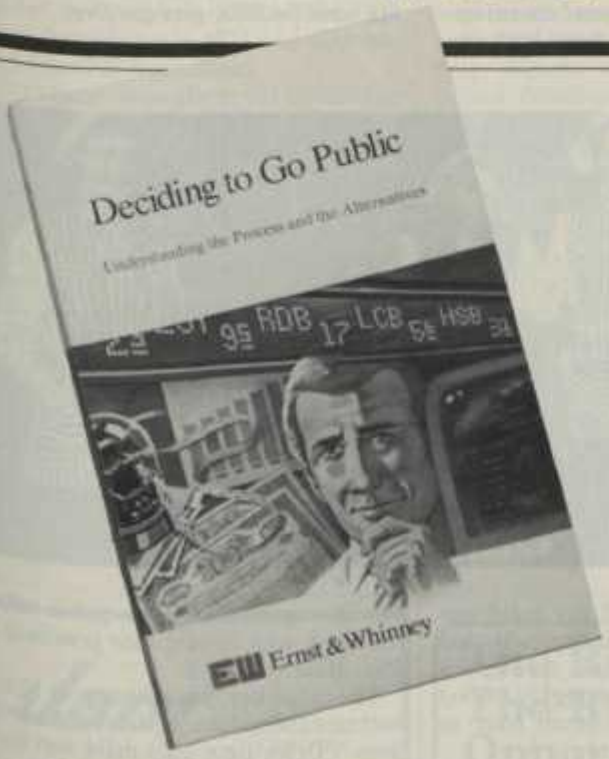
The Rise In Social Security Taxes



Source: U.S. Chamber of Commerce

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Franchising

By Ripley Hotch

It is no longer true that you just can't get good help anymore. Not since the advent of franchised maid and cleaning services.

"In the '70s, the housewife went to work, and that started all this," says Dan Bishop, president of The Maids, Inc., of Omaha.

"All this" is the burgeoning market for cleaning services for home and business. There are more than 50 cleaning service franchises of all kinds. The 14 maid service franchisors who responded to a recent survey by the Commerce Department say they will go from 537 units in 1984 to 1,072 units by the end of 1986. According to Andrew Kostecka, Commerce Department franchising expert, sales by these outlets will increase from more than $35 million in 1984 to an expected $91 million this year.

And the field is attracting new entrants: Maid In America, of Englewood Colo., and McMaid, of Chicago, are starting to sell franchises this year. Tiger Cleaning Systems, of Lafayette, La., is beginning to sell franchises specializing in cleaning services for industry.

The founder of the systematized, franchised maid service is Leone Ackerly, president of Mini Maid International, of Marietta, Ga. (Ackerly says that Mini Maid, with 75 franchisees, cleans more homes than any other service.) "In 1973 I decided there had to be a solution to residential cleaning besides finding a maid who could not always be counted on," she says. "And then you had to teach her, supply her, equip her, feed her and listen to all the stories about her life."

Working women, say maid service franchisors, no longer want to put up with that. "The working woman who wants to be a success realizes that she's got to have competent help at home," says Frank Flack, president of Molly Maid, Inc., of Ann Arbor, Mich. "Just as she makes an investment in a wardrobe, she's going to take care of her home by having professional, competent help. The smart woman will engage an organization like Molly Maid."

But, says Bishop, "It's not a service for the affluent anymore. It's a peace of mind thing: uniformed, dependable people coming in a clean car."

Ackerly created most of the techniques now used by all the maid services: a systematic, team approach that specializes jobs to move through a house quickly and thoroughly. Most services finish a house in an hour or less.

Without that approach, there would be no profit in cleaning houses. Ackerly used the police search method (left to right, top to bottom, to cover an entire room), suggested by her police officer husband, who is now vice president of Mini Maid.

The other key, says Bishop, is to concentrate the number of houses a service does. "Drive time kills maid services," he says. "It is important to saturate by neighborhood and not take business all over a city. So I clean five or six homes in the same area on the same day."

Cleaning that many homes in a small area means that maid services need regular customers—a steady return clientele. All the firms emphasize the importance of good pricing and quality. (Most maid services are competitive with day maids—about $40-$60 to clean the average house.) Because the maid teams are bonded and professional, Bishop says, the homeowners come to trust them: "We have keys to 85 percent of the homes we service," he says. "We provide the most personal service the customer can get today."

Maid services are a fairly new addition to the franchised cleaning business. Janitorial services and carpet/furniture cleaning predated them.

Jani-King, Inc., of Richardson, Tex., specializes in commercial janitorial services. It is a market, says Jim Cavanaugh, Jani-King's president, that can only grow. Cavanaugh started a janitorial service to help pay his way to an economics degree at Oklahoma Univer-

Franchised cleaning services have been in a growth pattern since the late '70s. Although general cleaning and janitorial services have been in business for some time, maid services are new. Atlanta's Mini Maid, founded in 1973, was the first.



PHOTO: TOM HILL

Franchise Update

☐ The newest edition of the Commerce Department's *Franchise Opportunities Handbook*, a listing of franchise offerings of 1,318 companies, is available for $15 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (Stock No. S/N 003-008-00198-0).

☐ Maryland's Equity Participation Investment Program for minority franchisees (covered in December's franchising column) is now up and running. The program is being administered by the Shingler-Hollis Investment Group, 6303 Ivy Lane, Suite 400, Greenbelt, Md. 20770.

Cleaning services allow franchisees to get into business in a growing market with a relatively low investment.

sity, and, although he tried several other kinds of businesses, "I came back to this one, for simplicity and dollars." He began franchising in 1974 and now has more than 700 franchisees.

Cavanaugh says the great advantage for a franchisee of his and other cleaning services is that the capital cost is low (his franchise fee is $7,500; maid service franchise fees start in the same range). "Most service businesses are this way," he says. "You don't expend dollars until you know you have income. In this one, the contracts are large—the Los Angeles airport contract is over $1 million a month—and I don't spend a dime until I know I've got that contract."

Duraclean International, of Deerfield, Ill., first began franchising its carpet, furniture and drapery cleaning service in 1945, although the company had been in the upholstery cleaning business since 1930. Irl Marshall, president of Duraclean, says that cleaning services are moving in the direction of providing many more services. That not only attracts customers, but it also "gives franchisees a menu to choose from," he says.

Franchisees of Duraclean, for example, can choose from four different packages, beginning with basic carpet and drapery cleaning and adding other services such as fire restoration and truck-mounted carpet cleaning equipment.

Marshall says the industry is moving to become more complicated, sophisticated and larger. Leone Ackerly agrees. Mini Maid is adding what it calls a "Tuff-Task" division for services not covered in an ordinary pass: window washing, carpet cleaning, cabinet and wall washing, hardwood floor buffing. The company is also going to add party service.

Ackerly insists that the key to expansion is not to mix the labor pool for the different services. "Down the road we may add lawn service. Our clients would much rather pay one check than have several bills to contend with."

Maid In America is basing its foray into national franchising on more personalized service. "Our objective," says President Jana Clarey, "is to clean what, when and how the homeowner wants. Most services work on a programed basis where the cleaning is accomplished in the same manner regardless of the homeowner's wishes."

All franchisors agree that cleaning has become something that customers are willing to pay for. Says Jim Cavanaugh: "These companies will be around forever. Dirt is here, and it's not going to go away." NB

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According to Gerry Dornell, executive director of the National Association of Pizza Operators, pizza is a "universal commodity," popular throughout the country, and appealing most to people between 8 and 55. Dornell advises anyone interested in opening a pizza restaurant to consult census growth profiles to see which regions contain the most people in this very large age group.

Of course, he says, it is also important to make sure that your chosen region is not already saturated with pizza restaurants. One of the best ways to do that is to thumb through the Yellow Pages for the area. Get a feeling for how many pizza businesses there are in the location you are considering, and how successful they are. Talk to owners of some of these restaurants to become acquainted with the local pizza scene. For more information, contact Gerry Dornell, NAPO, Box 114, Santa Claus, Ind. 47579; (814) 544-2608.

Becoming A Franchisor

How does one go about creating franchises? Are they registered? If so, where? How are they protected from being copied?
R.C.B., Monroe, La.

Franchising is a system of distribution by which a franchisor offers a business system and identifiable trademark to a franchisee in exchange for a fee. It is an excellent method of expanding a business using the capital of franchisees. But becoming a franchisor is complex and often expensive. There are registration requirements in a number of states, and regulations differ from state to state. Franchises are not protected from being copied (except for their trademarks). McDonald's, for example, did not keep the fast food field to itself, and most franchisors have at least one imitator. Anyone interested in beginning a franchise should do a lot of research. A good place to begin is *How To Be a Franchisor* by Robert Kushell and Carl Zwisler, available for $7.95 from the International Franchise Association, 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005.

Special Business Funding

Are there any federal low-interest loan programs for businesses owned by women?
U.D.P., Ellinger, Tex.

The Small Business Administration used to have special low-interest loans for women starting their own businesses, but that program was discontinued in the early '80s. Avenues for special capital programs you might try are your local chamber of commerce, municipal economic development office and any state business support agency. These organizations might be able to tell you about local, smaller-scale business loan programs for which you would be eligible.

Road Noise

Is there any information on how to reduce road noise in cars? I am interested in starting an auto soundproofing business.
F.A., Winston-Salem, N.C.

According to the American Automobile Association, there is no independent soundproofing company in the United States. Dick White, a spokesman for AAA, says that American-made cars are insulated so much at the factory there has not been a need for this kind of business. He speculates, however, that the number of imported cars in the United States might present a viable market for your idea. White also suggests that you contact Acoustikit, Hammond Avenue, Whitehill Industrial Estate, Stockport, England SK4 1PQ. Acoustikit is in a business similar to your idea and may be able to offer practical information.

Marketing The Marvelous Toy

I have invented a terrific puzzle that is popular among my friends and business associates. I would like to try to market it, but I do not know where to begin. Can you send me in the right direction?
G.M., Woodlawn, Va.

Donna Datre, public information director at the Toy Manufacturers of America, says that the toy industry is highly competitive and subject to changes in fashion. "The inventor has a lot of work cut out for him or her," Datre says.

First go to one of the larger toy stores in your area to see if other manufacturers are marketing products similar to the one you have in mind. If there are many of them, the market is probably already saturated. If there are a few puzzles roughly following your concept, there might be room for your idea, too. If your puzzle is unlike any other, you could be in for a great success or a resounding flop.

A good way to get the toy manufacturers' attention is by displaying your puzzle at the annual American International Toy Fair, to be held in New York next February. For more information about the fair and a copy of TMA's "Memo To Inventors," which details steps to take to market your ideas, write to the public relations department, Toy Manufacturers of America, 200 Fifth Avenue, New York, N.Y. 10010.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

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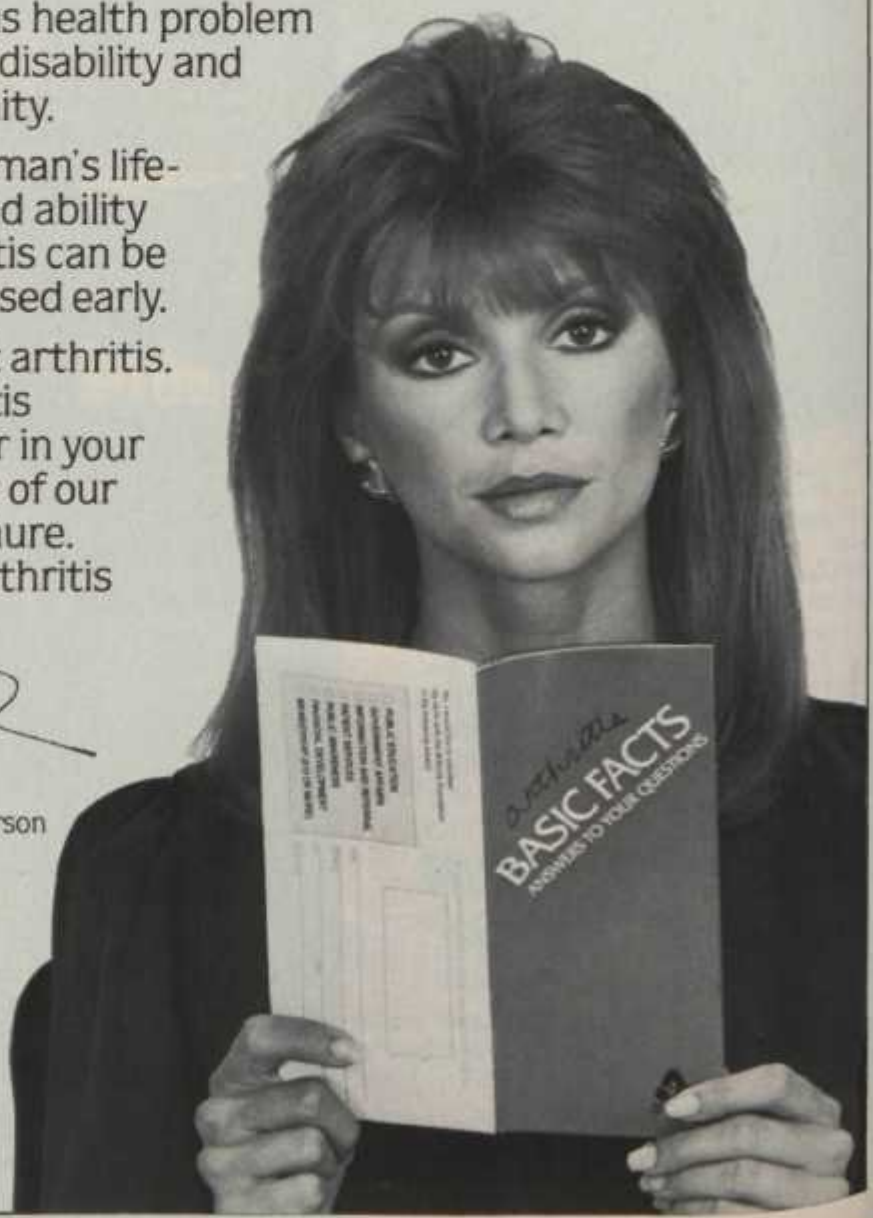
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Innovators

The value of having a plan for medical emergencies; correct behavior at the top; how to be firm.

By Sharon Nelton

Planning That Saves Lives

Dan Jones recalls answering an emergency call to a department store when he was a paramedic police officer, running in the front door and having a clerk look blankly at him and ask why he was there. Someone else had made the call, and the clerk had no idea who had done it or why. Meanwhile, precious minutes were lost as Jones and the clerk tracked down the location of the person in need of medical care.

Jones has seen similar delays in industrial settings. People can die during those wasted minutes. That is why Jones thinks it is imperative for any business—large, medium or small—to have an adequate emergency medical services system. But he agrees with estimates that 99 percent of the industries in the United States lack an adequate plan.

Eight years ago, Jones became employee and plant protection manager for Steelcase, Inc., a major designer and manufacturer of office furniture in Grand Rapids. With the support of Dr. Richard Postma, Steelcase's director of medical services, Jones developed an emergency medical services plan that has been called a model for industry because of its quick response and proper treatment capabilities.

Jones replaced the 30 or so security guards, provided by an outside agency, with permanent full-time employees called "protection services officers." Steelcase wanted to avoid any negative connotations that the name "security" might suggest and also get across the message that these officers were on hand to help the company's 8,000 employees.

There are now 42 full-time and nine part-time protection services officers. They play a vital role in making the emergency system, now five years old, work. All are qualified to provide "first responder" service, meaning each has received college-level training in emergency medical assistance—including use of the automatic defibrillator, considered crucial in many heart attack cases.



ILLUSTRATION: GREGG FITZHUGH—EUCALYPTUS TREE STUDIO

At Steelcase, an average of less than three minutes elapses from the time an emergency call is placed to the time a protection services officer reaches the patient. Some key elements of the company's plan are:

- An emergency telephone number for use by employees in more than 20 Steelcase facilities. Called "Quad-3" because the number is 3333, it activates a special emergency-alert telephone at the company's protection control center.
- An employee awareness program, so that employees know how to activate the emergency system.
- An automatic hot line to a local ambulance service, assuring that within seconds, an ambulance with trained paramedics is on the way.
- Quick access to the location of the emergency. A computerized database shows the control center operator which door is closest to the victim, so the ambulance can be directed to the proper location immediately.

Calling the ambulance is standard response, but if it is determined that the emergency doesn't require transportation to a hospital, the ambulance is canceled. "We don't want to take time to get to the scene, make a decision and *then* call for the ambulance," says Jones. "We'd rather have it on the way." Frequently, a case can be handled in Steelcase's own medical center, which is staffed by two physicians and 20 registered nurses.

Most companies do not need a system as elaborate as that at Steelcase. But Jones thinks the chief of any company would do well to look at such a large-scale model and determine how it could be trimmed down to fit the needs of his or her own business. A basic question, for example, would be, "How do we get an ambulance on the site quickly and not have it get lost?"

Key to any plan, he says, are these three elements:

Centralized Notification. Employees need a central location to call, like Steelcase's Quad-3, in case of emergency. Individuals in charge of answering the emergency telephone must know whom to call outside the company for help (the police? an ambulance?) or inside (employees trained in first aid?).

Training. At a minimum, some employees should have cardiopulmonary resuscitation and advanced first aid training.

Familiarization. All employees should understand how the system works. (Steelcase carries information about its Quad-3 number every week in its company newspaper and printed notices on telephones instruct employees to use the 3333 number in emergencies.)

Jones points out that an emergency

Planning That Saves Lives

medical services system is valuable not only to employees but, if you are a retailer, also to customers who may become ill while in your place of business.

Who can help a business set up an EMS system? It is a new field and assistance may be difficult to find. However, Davenport College in Grand Rapids will send information on emergency medical intervention in business to those interested. Address your request to Candace Otte, Director, Center for the Study of Emergency Medical Services, Davenport College, 3030 Eastern Avenue, S.E., Grand Rapids, Mich. 49508, or call (616) 452-8951.

In some parts of the country, the American Red Cross or local fire departments or ambulance services can help a company set up an appropriate EMS system, according to Gerald M. Dworkin, of Lifesaving Resources, a Springfield, Va., consulting firm that specializes in accident prevention and emergency management. Local colleges and universities also may be able to help.

The Psychological Knuckle Sandwich

When you are giving feedback to an employee, avoid the sandwich approach: a slab of criticism between two thin slices of praise.

So advises Thomas L. Quick, executive director of Resource Strategies Institute, a New York management consulting and newsletter publishing firm. In other words, he says, don't mix the positive with the negative.

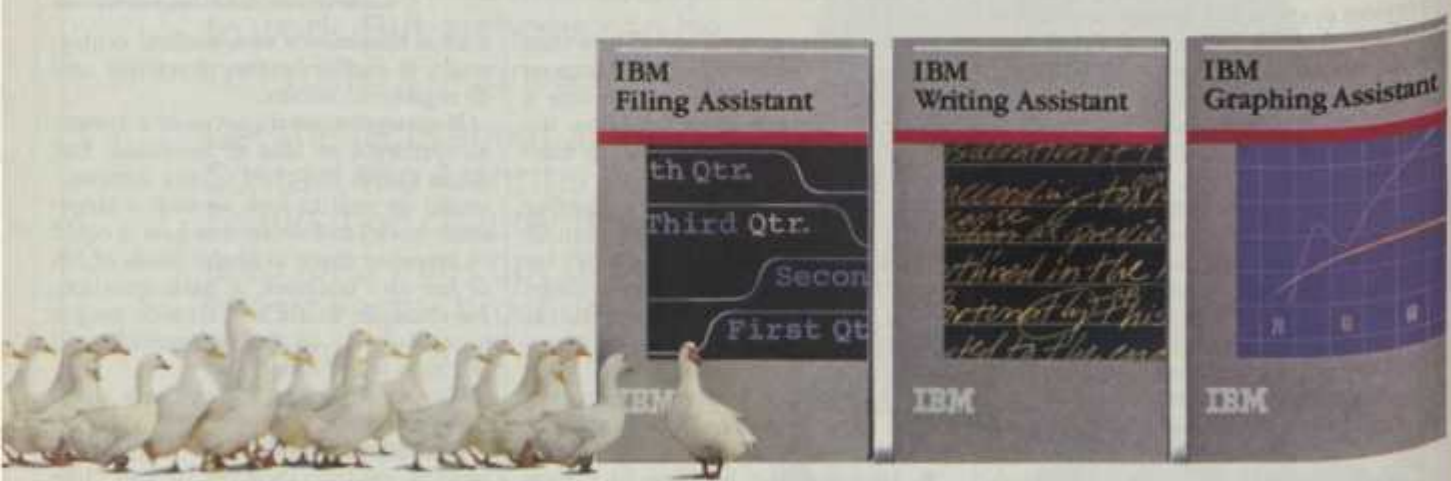
Many managers try to relax an employee with a few words of praise before hitting them with some criticism, Quick said at a recent National Retail Merchants Association meeting. That confuses the employee, Quick contends, because the praise dilutes the criticism.

If you have no choice but to mix the two, he suggests beginning with the negative. "It's more humane."

Quick's 75-page workbook, *Boosting Employee Performance Through Better Motivation*, though four years old, is full of ideas that are fresh and practical. It can be purchased (prepaid by check) for $18.75 ($11.75 for NRMA members) from the Publications De-



ILLUSTRATION: JERRY DADDS—EUCALYPTUS TREE STUDIO



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partment, NRMA, 100 W. 31st Street, New York, N.Y. 10001.

One of Quick's provocative opinions is that happy employees are not necessarily more productive. The "human relations school" of management maintains that if a supervisor is nice to employees, they will be happy and will work harder, Quick observes. But he says no research bears this out.

Staying At The Top

The rules that you follow to get to the top of the corporate pyramid may be of only modest use once you arrive. At the top spot, you are likely to face a new set of rules, says Mark Silber, professor of organizational psychology at United States International University in San Diego. He offers this advice to new chief executive officers:

Be gracious. "An effective CEO is ruthless on the numbers but considerate and caring with people," says Silber. "The goal of a real leader is not to make people *feel* good, but to let them *be* good. Executive graciousness is care, concern and consideration for the human crunches and crises."

Become a role model and a creator of values. You are central in determining what is of worth and what will be defined as success, according to Silber. Insist on and reinforce dedicated performance in yourself and your employees. Avoid overgeneralized, mushy mission statements; instead, present a well-honed credo that tells employees what you stand for. They will copy you, so keep your life in balance, allowing time for rest, recreation and humor as well as work.

Be a leader. It is your job to inspire your staff with enthusiasm. Keep a futuristic perspective, leading your company into new marketplaces and new self-definitions. CEOs should not be coordinators, managers or enforcers.

Set targets. Every two to four weeks, take time to think about targets or the specific goals you want your employees to aim for. "Most employees want to please you with their performance, but they can't please you unless they know the target," says Silber.

Be a coach, not a player. A CEO is the scorekeeper, not the scoremaker. Once you have defined the target, reward employees who hit it.

Be tolerant of mistakes and dissent. Remember that your mavericks may be your most creative employees and that a quiet organization is a dying organization. "You need to be tolerant of 'management-by-thrashing-around,' because progress and profit are forged out on the anvil of conflict," says Silber.

Silber also cautions new chief executives to beware of being meteorites, flashing through the sky and burning out. That is what can happen to a president who is overzealous and tries to change the corporate culture too quickly.



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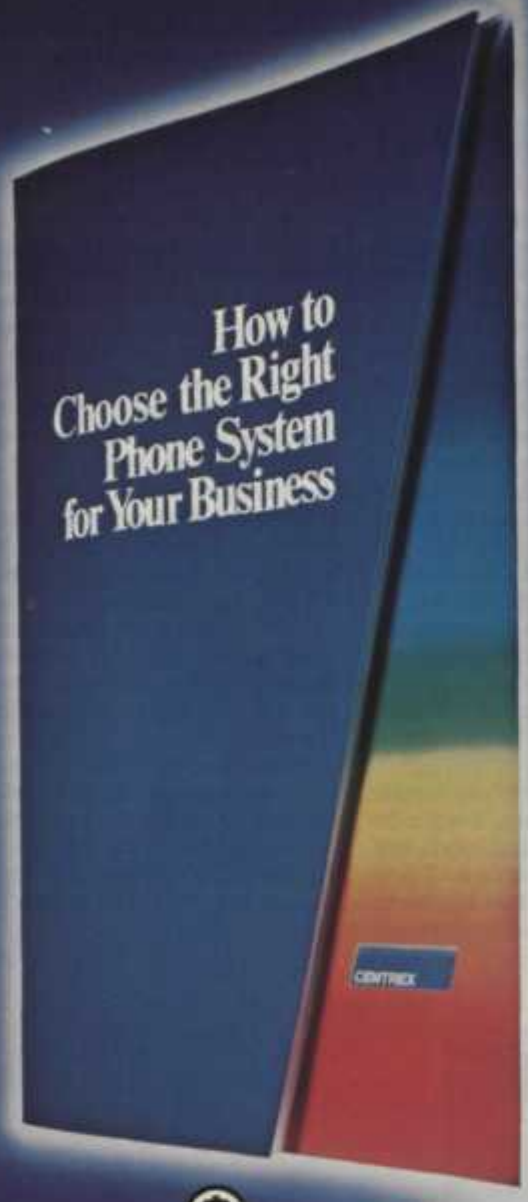
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Liability In The Boardroom

Recent court judgments holding board directors personally liable for business mistakes have made board seats into hot seats.

By Tony Mauro

Rather than pay a tenfold increase in insurance on the board of his Milford, Ohio, company, Gerald Zobrist asked the outside directors to leave. They included his father.

Gerald Zobrist, president of the Zonic Corporation, of Milford, Ohio, had the unpleasant task recently of asking his father to leave the company.

The reason was not any family feud over management of the company, which manufactures computer-aided product testing equipment and had $5 million in sales last year.

It was that Zobrist was facing a tenfold increase in the cost of obtaining liability insurance for his company's board of directors. Zobrist's father, Joseph—president of Bell Optical Corporation—was one of four outside directors who resigned so Zonic would not have to pay $250,000 for $5 million worth of insurance.

"We regretted doing it, because we are a small, growing company that could use the expertise of these people," says Gerald. "You wind up losing that expertise because of some silly situation in the marketplace."

That "silly situation" is striking companies throughout the nation, as they report staggering increases in premiums they must pay to insure their corporate officers.

Within the last year, Continental Steel, Control Data, Sykes Datatronics and Cook Data Services have lost some or all of their outside directors because they could not find reasonably priced insurance.

At the same time, the increasing risk of lawsuits by shareholders and regulatory agencies is making it hard for companies to recruit able executives and experts onto their boards.

Serving on a corporation's board of directors once was a plum, says John Nash, executive director of the 1,500-member National Association of Corporate Directors. "Now, when people are asked, the first thing they want to know is if the company has insurance for directors, and how much."

Robert Mueller, chairman of Arthur D. Little, the Cambridge, Mass., research and management consultant firm, has served on 30 corporate boards during his career and says that now it takes "more attention, more diligence. The whole agenda has changed."

Tony Mauro is the Supreme Court reporter for Gannett News Service.



PHOTO: LARRY NIGHSWANDER

Korn/Ferry International, an executive search firm based in New York City, says in a recently released report on its 13th annual study of boards of directors: "Increasingly, board invitations offered to outsiders are politely refused. Excuses come in many forms. . . . But the truth, we believe, is that more and more executives are getting over the initial flattery of the invitation and asking themselves, 'Who needs this?' "

The company said in announcing the results of the survey: "The risks may not justify the rewards for serving. We predict the day is coming when there may well be an acute shortage of qualified outside directors."

Lynn Gilbert, whose New York executive search firm helps companies look for directors, says prime candidates for directorships are shying away from the job.

"It's not just the financial exposure, but do you want to be on the board of a company that's an apex of controversy?" Gilbert says. "The people who join boards want the job of managing, not the job of apologizing."

A board member at a major corporation may have to put in 160 hours a year or more, says William Chisholm, of Boardroom Consultants, another New York director-recruitment firm. "The job has changed dramatically," he says. "CEOs are making more use of their directors than ever before."

Says Nash: "You had 143,000 new corporations starting up in 1984, and they all want boards of directors. Where are they going to come from?"

Why has the life of the corporate director become so difficult? First, in the current era of mergers, takeovers and buyouts, angered shareholders dissatisfied with the deals stand poised to sue corporate officers and directors for "management malpractice." Those lawsuits, even if frivolous, are costly to defend.

A 1984 survey of 1,652 companies by the Wyatt Company, a Chicago employee benefit consulting firm, found that boards and officers at nearly 20 percent had been sued at least once since 1975. Average cost of resolving the disputes:

$1.6 million, of which about 40 percent was in legal fees.

Second, courts are moving away from their traditional reluctance to second-guess business decisions and are holding corporate directors more accountable.

Under the "business judgment rule," courts used to defer to corporate boards except in instances of gross abuse or negligence. But with increasing frequency, judges are now scrutinizing directors' decisions to see if they acted with diligence and integrity in shareholders' best interests.

In a decision a year ago that frightened many directors nationwide, the Delaware Supreme Court ruled that directors of the Trans Union Corporation acted irresponsibly when the company was sold in 1980 for $660 million to the Marmon Corporation. Acting in a lawsuit brought by more than 10,000 former Trans Union shareholders, the court found that the decision to sell the company—made in a two-hour meeting of the board—was hasty and uninformed.

The court's ruling led to a settlement in which the directors agreed to pay shareholders $23.5 million. Only $10 million was covered by insurance; the rest was paid voluntarily by the company's purchaser, the holding company for Jay and Robert Pritzker, though the directors themselves could have been held personally liable.

That court ruling and its fallout, says Nash, was "the straw that broke the camel's back."

Shareholders are not the only ones suing, notes Los Angeles attorney James R. Butler, Jr. The Federal Home Loan Bank Board has sued a number of directors and officers of financial institutions, alleging breaches of "fiduciary duty."

The suits, says Butler, have prompted some in the banking industry to wonder "whether serving as a director of an insured institution is a sensible thing to do."

Experts say directors in two other key industries are also especially vulnerable to lawsuits:

- Chemical and hazardous waste companies with high environmental risks.
- High technology firms with high failure rates that provoke shareholder suits.

Nervousness about lawsuits, as well as price wars in the 1970s, have led many insurance companies to increase premiums drastically, notes John Foley, vice president of New York insurance brokerage, Alexander & Alexander. "It's a critical problem," says Foley. "Underwriters are trying to correct the situation in one year."

Foley says one company with $200 million in assets will have to pay $800,000 this year to insure its directors. Previously, he says, the same company paid $17,000 for three years' coverage.

Reporting on its survey of boards of directors, Korn/Ferry says that, "of the companies whose insurance policies were up for renewal in 1985, 68 percent responded that director liability insurance premiums were increased an average of 362 percent. Of the 26 percent that indicated there was no premium increase, a majority expect an increase when their present policy expires."

How are companies responding to the crisis? Some, says Foley, are self-insuring. Others are going "bare" without insurance, hoping they will not be sued.

Others, like Zonic, are getting rid of their outside directors, leaving them with boards composed of only "inside" directors—the company's own executives, who are covered by regular company insurance.

That saddens Nash.

"With an inside board, management is talking to itself," he says. "The whole trend of the 1970s toward outside directors to enhance the oversight function is down the tubes." NB

To order reprints of this article, see page 89.

Staying On A Board And Out Of Trouble

You took the job as director of a corporation to expand your horizons, your contacts and your community image.

Now you find that the expansion is primarily in your anxiety level and workload.

Nevertheless, experts agree that sitting on a company's board can still be safe and pleasurable. "If you do a conscientious job," says Boardroom Consultants' William Chisholm, "no one is going to put you in jail."

Here are tips from various board members and the National Association of Corporate Directors on staying on the board and out of trouble:

Assess your exposure. Make sure that you, as a board member, are adequately insured. Determine whether the company's bylaws protect you from damage awards and to what degree your legal expenses would be covered.

Attend meetings. You have to put in the time to stay abreast of all developments in the company. If a lawsuit is filed, your absence from a key meeting may not let you off the hook.

Keep up to date on the company. Because of the increased risk of personal liability, you owe it to yourself to keep informed of the company's activities. Study company reports and come to meetings armed with any questions you might have. Demand as much information as you need to stay abreast of company developments. One of the best methods for accomplishing this is to request a monthly letter from the chief executive officer.

Be inquisitive. If you have any doubts at all about what is going on at the company, speak up at meetings. "Many directors owe their jobs to the chief executive, so they are too embarrassed to ask penetrating questions," says John Nash, NACD executive director. "That has to change."

Place objections on the record. Don't sit silently if you disagree with an action the board is taking. Have your dissent in the record; it may help you during litigation later. Discuss doubts with other board members. Chances are, if you are questioning the wisdom of an action, someone else on the board is as well.

Be frank with the CEO. Sit down with the chief executive officer between meetings to talk over your doubts. If he or she will not listen to your advice, you have the option of resigning.

—Tony Mauro

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There was a time when I was so broke I could not put diapers on my baby or feed my family. Maybe you are living like I was — I pray that you are not. Maybe you are hurting financially just a little. Maybe you are thousands of dollars in debt and can't see your way out, or maybe you are just dissatisfied with your present way of life. **If any of the above applies, you will be interested in what I have to say!**

I am on top of the world - but it wasn't always that way; in fact, 13 months ago, I was hurting and hurting badly. Almost 2 years ago I got involved in a business that turned out to be a disaster. Unfortunately, when it went down the tubes, all my life savings went with it. I thought my life had come to an end. I had no money to pay the rent, the car payment, the phone bill, the gas bill nor the light bill. That's right, I didn't have a penny to my name. The thing that was really bad, was that my family was suffering with me.

In a matter of 9 months, we were $14,000 in debt. We had a place to live only because a friend was kind enough to let us stay rent free. Life was bad, and every day it was getting worse. Despite the disappointments of being in debt and unemployed, we kept hanging in there — looking and searching for something — anything!

This might sound like a familiar song to a few of you, but in my situation, the results were rare.

In one miraculous day, everything changed. That particular day, I woke up very early. I went into the kitchen, sat down and dropped my head to the table. I was so miserable and full of hurt and grief watching the hours pass by. All of a sudden, I was overcome with an incredible idea: an idea that was so strong, I instantly picked up the phone. I made that one certain phone call. Just **one phone call** and **2 days later**, we were making **$8,000 a month! guaranteed!** All I made was one phone call and in 2 days our miseries were gone!

In the next 60 days, we paid off our $14,000 debt and began buying things that even people who have worked all of their lives can't afford: my dream car - a Mercedes 450 SL. It was a symbol of my small discovery and my victory over defeat.

Five months after this discovery, I bought my wife a BMW 533i for Valentine's Day. It was just a little something to let her know how much I appreciated and loved her for sticking with me through those trying 9 months.

Eight months after my discovery, I asked my wife where she would like to live if given the freedom and the choice: "California." So we packed up everything and moved to the most beautiful spot in the state. Those of you who have been to Santa Barbara know what I'm talking about. We moved to a beautiful $250,000 home right by the ocean. And we still had $30,000 in the bank!

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*"After receiving Doug Holmes' book, it took me **two days** to secure an income of **$12,000** per month guaranteed, for as long as I wanted it."*
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*"I'm 32 years old, high school education and a housewife. Once receiving Doug Holmes' book, within a **few days** I secured enough income to become **financially independent for life.**"*
Karen Skelly, Illinois

Sworn Testimonial:
*"I was flat broke when I received Mr. Holmes' book. After **2 days** of applying his method, I locked in an income of **$8,400** per month guaranteed!"*
Dan Cockrell, Texas

Sworn Statement:
"I have personally been a witness and do testify that Mr. Douglas G. Holmes has been able to secure in 2 days $8,000 per month, guaranteed - after one 3-minute phone call."
Milt F., S.L.C., Utah

Sworn Statement:
"As the personal accountant and brother of Doug Holmes, I testify that Mr. Holmes has, indeed, been able to lock in an income of $8,000 per month, guaranteed, within a 2 day period. I also testify that the statements made on this page are accurate and true."
Robert M. Holmes, Accountant
Oregon



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In Japan, Make Haste Slowly

Japan is welcoming increasing numbers of American executives. Here are a few tips on getting along in the land of the rising sun.

By Henry Eason

This year thousands of American business people will arrive in Japan to take advantage of an improving trade climate. They will encounter one of the world's most unusual business cultures. The Japanese experience of those who do not make the effort to understand that culture will probably be frustrating and unprofitable.

Western business culture is analogous to hunting, but in Japan business is conducted more like rice farming, says Tatsuo Yoshida. Yoshida is mansging director of the Industrial Bank of Japan, which helps more than 450 foreign firms do business in his country. Hunters, he says, operate under one leader, have a strict division of labor and promptly obey commands in pursuit of game. It is an organizational structure that performs poorly in Japan, he says.

Japanese business traditions, he says, evolved from a rice farming culture in which the seniority system prevails but decisions are made from the bottom up, on-the-job training is valued, and everyone involved in the enterprise shares insights. In Japanese business, too, everyone works together.

Also, Yoshida says, the Japanese business vision is long-term and less focused on immediate return on investment than a hunting-like operation, which is oriented toward a single goal.

He says human relations must be pre-eminent in dealings with Japanese business. He advises foreigners:

"Like it or not, you must play by the local rules of Japan. If you do not like the rice farming style of management, you will not be successful. In particular, we recommend that your top management visit Japan. Seeing is believing.

"Although you do not have to leave everything to your Japanese staff, you must make good use of them. In Japan, we use a *jinjibucho*, or personnel manager, for allocating the right person to the right position, assuring fair personnel transfers, fostering promising young members and training the staff under a well-organized program.

"The communications gap between an American staff and Japanese fellow-employees, or between bosses in the United States and players at the fore-

Foreigners need "cultural translators" to help them in the Japanese marketplace, says Industrial Bank of Japan Managing Director Tatsuo Yoshida.



front in Japan, is often uncontrollably great. Ordinarily, human beings can understand each other through the medium of words. This is not necessarily true between Westerners and Japanese. There is a need for cultural dictionaries. You should have a cultural translator who can give you candid advice from the third person's neutral viewpoint."

Under sponsorship of the Japan Research Institute, Tokyo-based businessmen Takuro Tsukatani and Frank O'Brien, both in the auto parts industry, have produced a comprehensive videotape designed to help foreign business people operate in Japan.

In "Taking Your Product Into the Japanese Market" (marketed in the United States through Sietar International, 202/296-4710), they depict an encounter between a fictional Yankee trader and his prospective Japanese customers. It is an unfortunate experience, one that could result from any salesman's standard operating procedures in the United States. The trader breaks all the rules with the best of intentions. The videotape, using dozens of Japanese actors, shows how Japanese react to inappropriate American sales approaches.

"I see so many foreign businessmen working in Japan who have major difficulty in communicating with an organization," says Tsukatani. Business is done not with individuals but with groups in Japan, he notes. This is the videotape's lesson No. 1. The rest of its lessons are in organizational behavior, as suggested by the rice farming analogy.

Tsukatani, who has a Stanford University doctorate in industrial management, says American companies are hierarchical, but Japanese firms are clusters of smaller villages, with many informal networks sharing influence. Getting things done requires familiarity with what Japanese call the "O.B. Network," the Old Boy Network, a phrase borrowed from Americans and their British cousins.

Japanese start learning English at 12 years old, says Tsukatani. "You should spend at least some time learning about Japan. Training is so painful and challenging, I know. But there is a gold rush situation in Japan now for you because of the favorable exchange rate."

First and foremost, Tsukatani stresses, newcomers must patiently study the organizations with which they are dealing—basically, by carefully cultivating individuals working on various aspects of a business project. Japanese who come to know and trust an American through socializing are more likely to commit themselves to a deal, he says, adding that character is more essential to Japanese than a precisely written contract that implies distrust among the signatories.

It is important, he says, to realize that bottom-to-top Japanese management means lower level people are also decision makers and should not be ignored in group discussions. That involves the concept of personal pride—or "face." In business dealings, care must always be taken to ensure that no one loses face, Tsukatani says—offending even a minor staff member will be resented by all his colleagues.

In one simple phrase, Tsukatani cautions, "Move slowly." NB

SPECIAL REPORT

Why Some Firms Don't Move

States, municipalities and universities are joining to encourage companies to stay where they are.

By Harry Bacas

Custom Chrome, Inc., a California designer and marketer of motorcycle parts and accessories, is expanding at such a rate that it has been outgrowing its quarters every three years. Since 1979 it has moved from a site in Santa Cruz to one in San Jose to one in Morgan Hill—all within the state. When CCI started planning another move recently, cities in Ohio and Oregon submitted competing offers.

Alerted to CCI's potential move from California, Art Taylor, regional manager for the state's Office of Business Development, got in the act. Taylor spends a lot of time talking to industrial brokers, bankers and contractors, and a contractor told him of CCI's plan to leave California.

He went to the company's plant at Morgan Hill, an agricultural area south of Silicon Valley that is turning to light industry, and talked to CCI President Tyrone Cruze and Vice President Dennis Navarra about their plans to move.

They told him that they had decided to shift some of their manufacturing operations from Taiwan and Japan to the United States.

CCI had contracted all its manufacturing in the Far East to keep costs down. But Asian manufacture has some disadvantages, Navarra says.

"Some Asian manufacturers are not as good at scheduling as U.S. manufacturers," he says, "so there is uncertainty about delivery. And there are security problems: keeping control of proprietary information about the products we design. There also are extra costs in importation like transshipment and supplying letters of credit. And with the yen continuing to fall, the cost advantage is disappearing."

Cruze and Navarra told Taylor they would need a new U.S. site, because they had no more room for expansion at their old one. They expected they would quadruple their labor force—from 150 to 600—over the next three years.

"I told them we could provide a lot of incentives for CCI to stay in California and expand," Taylor says.

He ticked off low-interest industrial revenue bond financing, a grant for the extensive worker training that would be required, assistance with utility service and expedited permit approvals.

Tyrone Cruze (standing) and Dennis Navarra needed room to expand their Morgan Hill, Calif., motorcycle parts and accessories business. State authorities helped persuade them to build their new plant right in Morgan Hill.



PHOTO: KAREN BORCHERS

When Taylor was finished, Cruze said, "Hey, we're glad you stopped by," and told him the company would cancel its plans to go to Oregon or Ohio.

Since then CCI has had continued assistance from local officials in acquiring and developing a new 10-acre site not far from its old headquarters. For example, the city council saw to it that the company got an expedited sewer allocation once a regional water authority moratorium on new building was lifted.

Now CCI is studying its product lines and determining case-by-case which parts to transfer to local manufacturing.

The treatment CCI got from California and Morgan Hill is not unique. Companies elsewhere, whether expanding, relocating or starting up, are benefiting from increased public-private cooperation in economic development. Even as Gramm-Rudman-Hollings deficit reduction is cutting into some federal business incentives, and tax reform is threatening others, states, municipalities and academia are putting new emphasis on economic development to increase their communities' small to medium-sized business appeal.

California alone is spending $1.25 million on ads to tell companies what assistance is available and how to get in touch with development authorities.

"Big companies know where the resources are," says Art Taylor. "Little ones don't. That's why we're here."

In York, Pa., the York Wall Coverings company found that being in an enterprise zone—a depressed urban area where a local government gives businesses special incentives to assist the area's renewal—helped when it wanted to improve and expand its property.

The company had been operating in the same multistory brick building since 1893, and "the place was physically and economically falling apart," says Carl Vizzi, president of a group that bought the company six years ago.

Since then York Wall Coverings has put more than $3 million into strengthening and improving its original building, upgrading equipment, buying an even older building next door and con-

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SPECIAL REPORT

Why Some Firms Don't Move

A.L. Hydeman (right), a York, Pa., development official, checks a hot tub with Don Weir, whose company put its new hot tub plant in York.



PHOTO: T. MICHAEL KEZA

structing a connecting building between them. The new structure has design studios on the first floor, shipping on the second floor and a tunnel underneath that is used to transfer products from plant to warehouse. The company's business has grown sixfold in that period.

Its plant is in one of two "rail corridor" enterprise zones that the city of York designated. The railroads in both cases are lined with largely vacant turn-of-the-century buildings."We saw those buildings as resources for development," says Jere Rudisill, city economic development coordinator. "We used state technical assistance funds and other state financial tools and put our own money into improving things like vehicular access, rather than financing individual businesses."

York Wall Coverings used industrial revenue bond authorization to get a $1.8 million bank loan at 2 percent below market interest, got a three-year 50 percent city real estate tax rebate on the value of the improvements and took advantage of a grant tied to energy-saving improvements.

To help find and navigate a path through these programs, the company often called on Albert L. Hydeman, Jr., York's economic and community development director. Hydeman, like Art Taylor in California and development officials everywhere, keeps his ears open for activities that may mean more jobs for his community.

He learned that the Marquis Company, an Oregon manufacturer of hydrotherapy spas (some people call them hot tubs) was looking for an East Coast location for a new plant. He got the word from Don Weir, chairman of Fox Industries, of York, which had recently acquired Marquis.

"We had the desire to expand to other areas for marketing and production reasons," explains Weir. "I thought York was a good place, but the guys on the West Coast were looking elsewhere—the Carolinas and the Northeast—and York wasn't on their list.

"This market looked attractive to me. I felt York was as good as any place for distribution. It had good transportation and geography, and an industrial park where the land price was attractive, and it had an excellent pool of workers who give a good day's work for a good day's pay."

Weir asked the West Coast executives to come to York. Then he got Hydeman to set up a presentation for them.

"The mayor and I took them to lunch," says Hydeman, "and then we sat around a table with them and with my zoning and codes people and the head of the county development authority.

"I told them we could get them a state industrial development loan and a federal urban development grant. I told them that for city permit and building code matters, they would be dealing with just one person. I told them that in our zoning office we were not policemen; we were there to give technical assistance.

"When it was over, they went across the street and took an option on the land."

Don Weir gives Hydeman credit not only for selling the company on the location but for following through after construction began on the $1.5 million plant.

Because the spa manufacturing process involves use of fiberglass, they needed state environmental clearances. Hydeman himself went to the state cap-



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Carmona Gear Cutting in Rockford, Ill., is a family business. From left, sons Robert and Vic, father Frank and mother Josephine. The company is one of 15 set up in a "business incubator"—an old plant where Frank worked for 25 years.

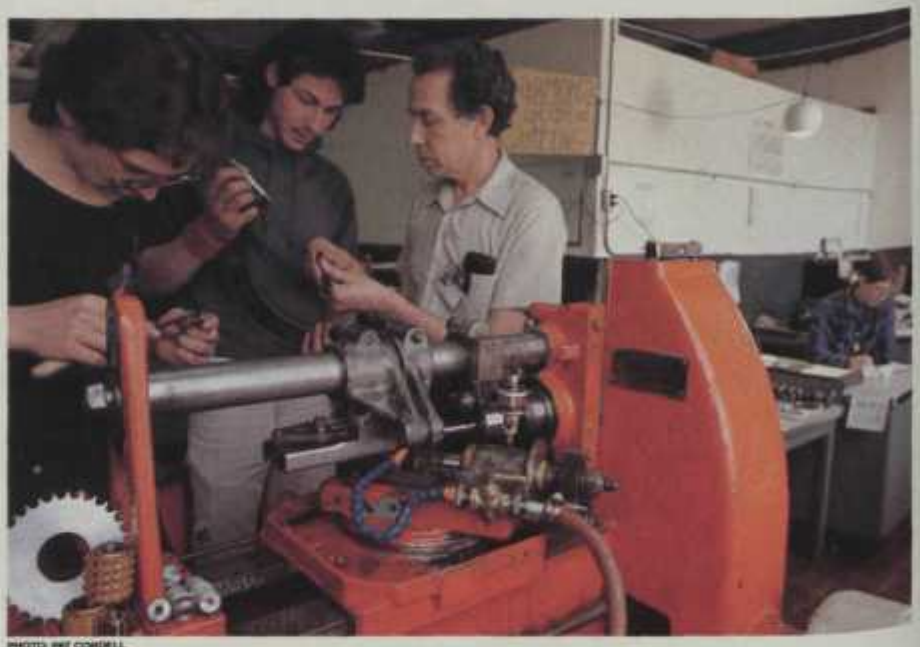


PHOTO: PAT CORDELL

ital, Harrisburg, to get all the materials the company would need for approval of its environmental application. He later helped company employees from Oregon find housing.

The spa plant, now in its second season of operations, started making a profit after only four months, Don Weir says with satisfaction.

Al Hydeman has this advice for other companies looking to start up, expand or relocate:

"First, see if the community has an economic development component. Sit down with them and find out what the city or county needs to know about your development. Then prepare full information for them so both sides can anticipate problems and find solutions.

"A lot of businesses get blind-sided. They find out too late that the community has different rules and regulations than the community they were dealing with before.

"For example, a company should make sure it has all of the community's environmental concerns taken care of before getting in too deep. We had one company well into construction before they told us they would need extra wastewater treatment allocation, and we were under environmental authority constraints then that didn't allow such increases."

Increasingly, colleges and universities are playing a role in economic development. For example, in Rockford, Ill., the state and Rock Valley College, using city and federal help, have jointly funded the Rock Valley Small Business Development Center in an old textile machinery plant.

The center operates a "business incubator" there. It gives start-up businesses a place with cheap rent, free utilities and shared services like security, secretarial, accounting, training, shipping and receiving.

There are 15 businesses in the incubator now, including two software companies, an electronic circuit board maker, a graphic artist, two inventors and a man who runs a double-decker bus sightseeing service.

"We encourage them to come to us with their management problems," says Beverley Paquette, the center's director. "Sometimes they'll say, 'We're not making enough money and don't know why.' So we ask to see their financial documents, to see how efficient they are and how their cost-sales proportion relates to their sales growth. I walk around a lot, just seeing how people are doing. The problems change."

One of her tenants is Carmona Gear Cutting. Frank Carmona used his severance pay from 25 years' service with the old textile machinery firm to go on his own in third-floor space.

He intended to spend the money on used gear-cutting machinery until Beverley Paquette told him not to. She advised him to invest the money and borrow against it. So he bought certificates of deposit at the Woman's Finance Center at the Illinois National Bank—which Paquette told him was receptive to small business applications—and took out a loan.

Carmona employs his wife as bookkeeper and his two sons as apprentices learning his custom gear-cutting skills. They eat in a cafeteria run by a large tenant and once a month send out their papers to an accounting service recommended by Paquette.

"This is a very good deal for me," says Carmona. "At this stage I certainly couldn't have afforded to go out and get a building for myself."

The small business center also runs a procurement office to help small companies, whether tenants or not, get government contracts. It also assists them in market surveys to find buyers.

And it regularly runs television ads to tell other small businesses about its free services.

Programs like these in Rockford, Morgan Hill, Calif., and York, Pa., are matched over and over again throughout the United States as states and communities search for new ways to assist and encourage economic development, recognizing that it is a foundation for a better life for their citizens. ■

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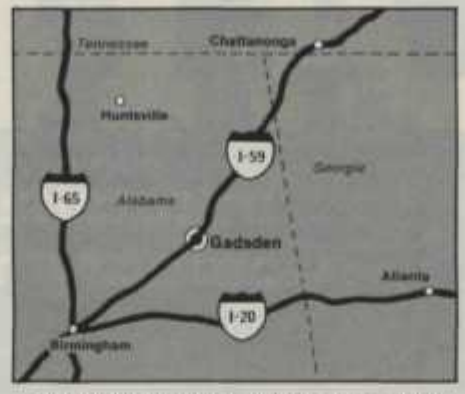
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SPECIAL REPORT

Transferring Employees

By Gaylord F. Milbrandt

John W. didn't want to go to Chicago. His son was captain of a Little League team in King of Prussia, a Philadelphia suburb. His oldest daughter was scheduled to perform in a ballet recital in late fall sponsored by the Rotary Club, of which he was a long-term member. And his wife earned $21,000 as a cost accountant for the local branch of a national financial services firm.

But the consumer packaged goods company for which John worked was both determined and persuasive. The personnel department had recently beefed up an already reasonably generous relocation package with additional benefits—designed specifically to counter hard-core dissenters like John and his family.

John's company now offered a cost-of-living differential paid out quarterly over a five-year period and—through an outside relocation management services firm—spousal employment assistance and a home purchase program. These were supplemental to the more traditional benefits like household goods moving expenses, mortgage interest differential programs and fully paid house-hunting trips.

With relocation costs varying between $20,000 and $60,000 per transferee, the management of John's company was prepared to reach toward the high end of the scale to convince this valued employee to make a move.

In the end, of course, John and his family relocated to the Chicago suburbs, making the necessary physical and psychological adjustments. His career pathing was nicely on target.

"Without an up-to-date, responsive relocation program to offer we'd lose between 10 and 15 outstanding performers each year," comments one human resources vice president.

Similar situations are played out daily in company corridors—executives promoted and transferred and new people hired. Over the past 10 years, the average cost to relocate an executive has risen 500 percent to $35,800. This figure can vary significantly based upon where the executive is moving from and where he or she is going.

Frequently, relocation opportunities are turned down, even though the total benefits may be as much as, or more than, the average. Why do executives turn down transfers? Most relocation surveys show higher cost of living,

Gaylord F. Milbrandt is group president of Runzheimer & Company, Runzheimer Canada, Inc., and Runzheimer Europe, Ltd., subsidiaries of Runzheimer International, a Rochester, Wis.-based management consulting firm.

Average Relocation Expenses

Expense Category	Average Amount
Shipment of household effects	$ 4,500
Home purchase, selling, servicing	21,200
Home finding	600
House-hunting trips	1,800
Temporary living expense	2,000
Living cost differential	3,200
Spouse job-finding assistance	1,000
Incidental expense	1,500
	$35,800

Source: Runzheimer & Company

Here are important ways to ease the financial and psychological burdens of a job relocation.

quality of life issues and the problems created for a working spouse as the primary culprits.

When transfers are turned down, significant problems are created. If a company is unable to get the right person in the right job at the right time, it can lose substantial revenue-producing capability.

On the other hand, relocation complaints by the transferee after arriving at the new job site are likely to fall on deaf ears.

Though most relocation policies allow for certain exceptions, most companies believe that their policies cover all the benefits they intend to provide. It is better that everybody agree and understand these benefits in advance than to become disgruntled and less effective after the fact.

In John W.'s case, the firm's relocation administrator explained he would receive an annual cost-of-living allowance of $3,229, covering the differences in income taxes, transportation, housing and goods and services. John was armed with this information before his first house-hunting trip to Chicago. He also knew that it would cost about $10,500 more for a comparable home in a comparable neighborhood in Chicago than the current market value of his King of Prussia home. In the discussion with his relocation administrator, he made certain that all cost-of-living factors had been fairly analyzed and included in his differential.

Before the executive goes on a house-hunting trip, he or she should know the cost of utilities, homeowners insurance, typical home market values in the new area, real estate property tax levies, and how transportation and taxation expenses will be changed because of the relocation. Armed with that information, he or she will likely be more realistic and do less lifestyle upgrading.

Many new relocation services are now being offered that reduce the personal expense and emotional trauma of most moves:

Home-finding services. Locating proper housing in the new location can be a nightmare for some transferees. Finding the right community, the right house and the right community services are a critical part of assuring the suc-



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SPECIAL REPORT

Transferring Employees

To transfer an employee is to move the entire family. An overview of the personal price of relocation includes all cost of living increases, potential unemployment for the spouse and school changes for the children.



PHOTO: MIKE MITCHELL—AFTER IMAGE

cess of a relocation. Many relocation companies, real estate firms and consultants offer home-finding services, frequently free of charge.

Cost-of-living differentials. There are now substantial differences in living costs across North America. Executives asked to transfer to a higher cost-of-living area may not accept unless this "opportunity" is matched with differential payments. Many companies are using living cost reports to reveal the cost factors to transferees before move decisions are made.

Mortgage counseling. In 1986 an alphabet soup of mortgage options is available to the transferee such as adjustable rate, balloon payment, equity sharing and FHA mortgages. Each mortgage type has a specific target market and works best when that type of transferee uses it. Many firms today enlist the assistance of relocation consultants to help their employees pick the right mortgage instrument.

National mortgage programs. These are mortgage programs that are offered nationally regardless of the transferred executive's location. Certain major lenders and investment houses, including Salomon Brothers, Lomas & Nettleton, City Corporation and GMAC Mortgage Corporation, offer such programs to transferees. Interest rates are frequently lower than can be obtained through a local lender.

Relocation centers. In major cities and staffed by relocation professionals, these centers assist transferees as they move into that market area. Counseling covers home-finding and items such as spouse assistance, selection of the best school districts for the children, and lists and locations of shopping centers, medical facilities, social services and available cultural activities. Services are usually free to the transferee. Sometimes the company pays, but more frequently the relocation center obtains real estate referral fees or advertising fees from major home builders serving the area.

Spousal assistance policies. Many relocations are going to include a working spouse who often has trouble finding appropriate and comparable employment at the new location. Today many firms provide spouses with help in resume preparation, job interview training and other related services.

The Internal Revenue Service has set up complicated regulations concerning employee benefits, including relocation assistance. Some of these benefits are tax-deductible by the employer or must be considered taxable income by the employee. It is advisable for a firm to check its plans with a tax adviser.

Traditionally, many executives and their families wait until the end of the school year before relocating. As far as the family is concerned, this is the worst time to relocate. Just before the beginning of the school year is better.

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Businesses On The Couch

The prospect of lost business has encouraged some managers to turn to business therapists to improve their firms' mental health.

By Gary M. Kaplan



PHOTO: TERRY HOURIGAN

Gerald Rosenbaum (center, gesturing), head of the New York office of Connecticut Mutual Company, found himself in intense conflict with his colleagues when he first took over. He turned to therapist Saul Pavlin (to Rosenbaum's left), who helped establish mutual trust in the office.

At 37, Gerald Rosenbaum seemed to hold the business world on a string. He spent 11 successful years with Connecticut Mutual Company in Philadelphia and Syracuse, N.Y., and his company then sent him to Manhattan in 1981 to transform its Fifth Avenue office into the Tiffany of insurance agencies.

Rosenbaum had an intense, achievement-oriented approach to managing that he thought would enable him to do just that. But it also spoke stridently to his new associates. Many of them felt they could not work with their overly demanding new boss and left the company. Rosenbaum's rigid, impersonal, do-it-my-way-or-else management style created, not the jewel of his career, but a poorly functioning office with declining sales and skimpy profits.

Frustrated in his attempts to turn his agency around, he brought in Saul Pavlin, a pioneer in an emerging field called business therapy. Business therapy aims to open communication lines among co-workers, enabling them to better understand one another's motivations and behavior.

It also helps feuding executives air their *emotional* grievances with each other—often the cause of business troubles—and focus on solutions to get their company back on an even keel.

It has done all that and more for Rosenbaum's agency. Today, he says, sales figures are up dramatically, turnover is down, and a real team approach pervades the office.

Rosenbaum was anything but team-oriented when he first took over the Manhattan office. "I was the classic autocratic ruler," he recalls. "My whole focus was on results and achieving those results *my* way. Whatever problems people had with this approach were *their* problems."

They quickly became Rosenbaum's and Connecticut Mutual's problems. Commissions and profits nose-dived as rapidly as did trust and respect between the general agent and his associates. Though he was aware of growing animosity, Rosenbaum first shut it out of his mind.

After all, he reasoned, his track record spoke for itself. Starting as a salesman for Connecticut Mutual in Philadelphia, he had quickly become a second-line manager there and then general agent of the Syracuse office. "I was good at coming in and shaking up the troops," he says.

Unlike the younger staff at Syracuse that was more willing to do as Rosenbaum decreed, the Manhattan office was staffed by seasoned professionals unwilling to bend to their new boss' iron hand. With each passing day, they became more rebellious.

Rosenbaum had heard of Saul Pavlin's work but did not see initially how it applied to him. A psychologist with over 25 years' experience, Pavlin, of Albertson, N.Y., believes the way people act in their adult organizations—their companies—is a carry-over from the way they behaved in their childhood organizations—their families. But Rosenbaum was skeptical. "I couldn't see the relevancy of Saul's ideas to the business world."

As his agency continued to crumble, however, he thought more and more

Gary M. Kaplan is a San Francisco free-lance writer.

about Saul Pavlin—perhaps the psychologist was on to something. Finally, in September, 1982, he decided it would be prudent for his agency to work with the business therapist.

The first meeting took place, with seven key colleagues, in Rosenbaum's quiet Manhattan apartment, away from the jangle of telephones and other distractions.

"People in business tend to be impersonal and closed to one another," says Pavlin. "This creates distrust, isolation, suspiciousness. The initial meeting enables business people to get to know one another on a more personal basis."

Two group leaders trained by Pavlin asked each participant to respond to 10 questions. The first were routine—name, age, professional title. Others, concerning present family and family of origin, were more probing and designed to flesh out each person as a human being with a life and a past away from the office: What kind of person is your wife? Who was the boss in your family when you were growing up? What was your role in your family?

The answers, says Pavlin, "open up the environment, making each person more real to the others."

Indeed, Rosenbaum reports, that first meeting was a turning point for his office. "Once we began to drop our masks and interact more humanly with each other, relationships began to improve." Eventually, Rosenbaum began to understand his own do-it-my-way relentless behavior.

Much of it, just as Pavlin had expected, was due to the way Rosenbaum had felt growing up. He had had a poor relationship with his father, always seeing a need to compete with him for his family's attention. Years later, in the business world, he was still playing the same role. Overly competitive, he would strive always to be in the spotlight, which only interfered with his relationships with other people.

As he came to grips with his destructive behavior, Rosenbaum began to change. He became less autocratic and more democratic in running the office. With this shift began a further warming in his relationships with staff members. Their own participation in the weekly meetings, revealing how they felt about their work and life, brought them all closer, producing bonds of understanding, trust and cooperation.

Today, nearly 200 meetings later, staff members seem to genuinely enjoy working with each other and with their

Peter Ruddy (in front) executive vice president of Goldome Bank, Buffalo, says weekly business therapy sessions with his staff are a "nifty management tool" that has reduced employee turnover.



PHOTO: MICKEY OSTERREICHER—BLACK STAR

Finding A Therapist

How do you as partner or manager know when relationships with co-workers are at a rocky stage—and a business therapist is needed?

Warning signs in associates and yourself include a joyless, going-through-the-motions attitude and a feeling of isolation from the rest of the staff, as well as general lack of fulfillment at work. Things just aren't what they used to be—and you know it.

The cost of business therapy ranges from $60 to $150 an hour and up, depending on the therapist.

There are several ways to locate business therapists. Look in the Yellow Pages under "Psychologist Information & Referral Services." Your professional advisers—accountants and attorneys—might also know of good therapists. Trade associations are another good source for referrals, as are business acquaintances who have had personal experience with therapists.

How do you know which therapist is right for you? Make sure you examine his track record. Find out how long he has helped businesses, and whom he has helped. Speak to the heads of these client companies and get their viewpoints as to the effectiveness of the process.

former nemesis, Rosenbaum. Where the agency once produced poor numbers, it is now one of Connecticut Mutual's leading offices.

That improved productivity has not come cheaply. Rosenbaum's agency has spent more than $325,000 in business therapy fees over the last 3½ years. (Remember, though, it has held *weekly* meetings during this time.)

Without business therapy, Rosenbaum and others who have gone through the process claim, co-workers may never gain the camaraderie necessary to the flow of daily business.

"Touchy emotional subjects, the kind executives wouldn't dare discuss with each other at work—feelings of hurt, resentment, betrayal—will come out in my office," says Olivia Mellan, a Washington business therapist.

Family members in business together are particularly prone to difficulties, according to Thomas Hubler and Stephen Swartz, Minneapolis-based specialists on the problems of family-owned businesses.

"That's because they are working under two different systems with dramatically different goals and values," says Hubler. "A family system is emotion-based; its members are bound together by emotional ties. It is oriented inward toward the security and nurturing of its members. A family operates to minimize change—to keep the equilibrium of the family intact."

A business system, on the other hand, explains Swartz, is based on the accomplishment of tasks. "Oriented outward toward the production of goods or services, it places high value on the production of its members," he says. "It operates—as it must to survive—to make the most of change."

When family businesses experience problems—when parents and children have difficulty working together, for example—the boundaries between family and business systems become blurred, and family issues—such as parent-child conflicts—are carried into the business, according to Swartz. At the same time, business issues, including leadership, are carried back to the family where they may affect relationships among all members.

Business therapists Mardell Grothe and Peter Wylie (their company, Performance Improvement Associates, of Lincoln, Mass., and Washington, is 14 years old) recall an 84-year-old client who had founded a successful furniture manufacturing business and was supposed to be in retirement. His son, president of the firm, knew better. Though dad had nominally handed over the reins years before, he still owned the company and came to the office daily.

Every time his son was about to make a decision the old man didn't approve, dad threatened to sell his stock in the company to outsiders, so that the son would never control the firm. One major disagreement between the two centered on a line of chairs the father dearly loved.

The son felt they had had their day, were not nearly jazzy enough for today's buyers and should be removed from production. Father had a different viewpoint, and so sat tight on his favor-

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Businesses On The Couch

Business therapists Mardell Grothe (left) and Peter Wylie have a counseling firm with offices in Lincoln, Mass., and Washington.



PHOTO: RICK FRIEDMAN

ite chairs, insisting they would sell once again.

"Predictably, the problems they had weren't business problems at all," says Grothe. "They were emotional and personality conflicts." Grothe and Wylie first met with the father to get his fix on the problem. Then they met with the son to get his perspective.

"Invariably during these initial get-togethers," explains Grothe, "each blames the other for their difficulties, paying only lip service to their own contribution to the turmoil."

In the business therapists' next visit, the father and son were brought face to face. Through this 10-hour session and several more, the two psychologists helped the father and son talk about their problems in a way they could not do on their own. Frequently, Grothe points out, people who are struggling with one another don't listen to each other.

"Whenever there is a conflict between partners, be it in business or marriage," says Grothe, "the typical response is not patient listening but verbally straightening out the other guy. 'Hold on there, you don't know what you're saying. Listen to *me* and I'll set you right.' Men are especially guilty."

The more the father and son talked, and really listened, the more they realized their biggest hangups were emotional and not business-centered at all. After recognizing this, they came to a mutually satisfactory business agreement. The much-disputed chairs would be manufactured for at least a few more years, with the father backing off from pressuring his son to conform to older ways. In a tearfully happy embrace, something the two had never shared, the father agreed to turn over his company stock to his son.

Of course, business therapy is not a panacea for all troubled firms. Grothe and Wylie once counseled a father and son who co-owned a tile manufacturing company, but who had been battling each other for a decade. "They didn't talk to each other outside their firm, and neither did other family members," Grothe says. "The father's wife was terribly depressed by the situation. Because of it, she had not seen her grandson in four months—and the two families lived only six blocks apart!"

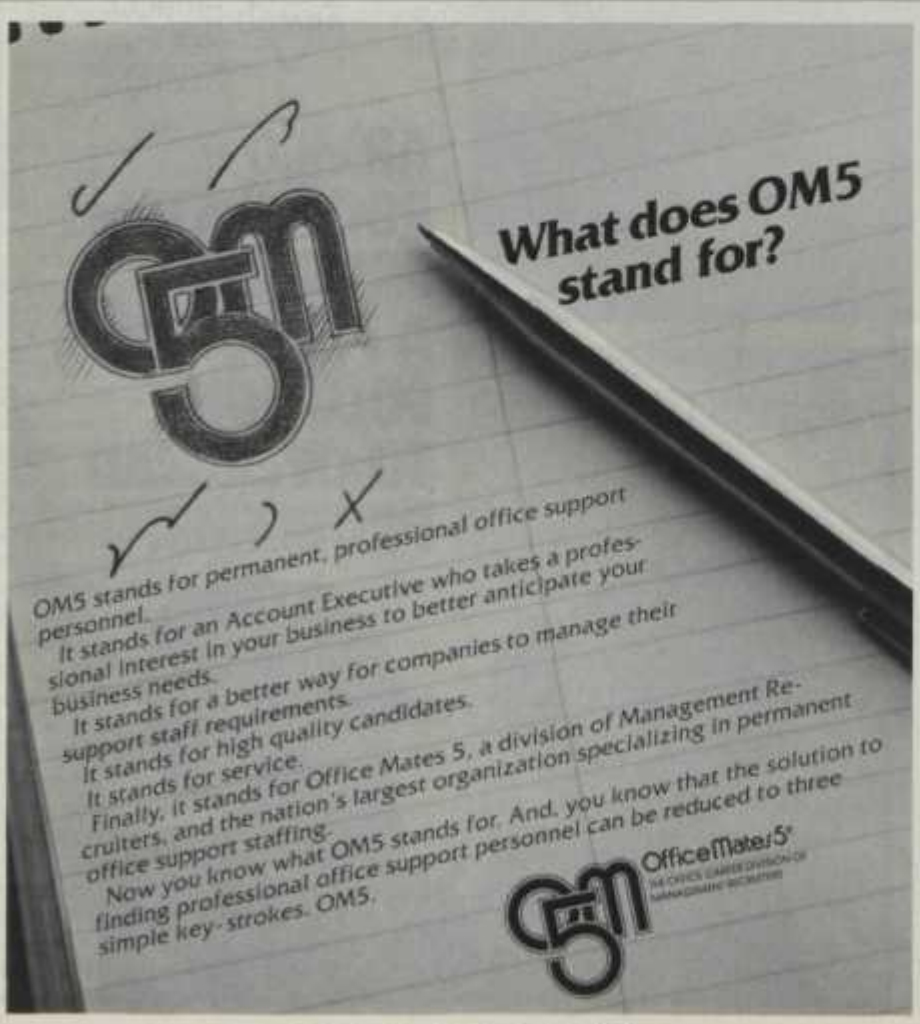
Unfortunately for this business, reconciliation was not possible. There were too many years of anger and tension between father and son. To save the combatants' personal lives, they were persuaded by the therapists to break up their business alliance.

Finally, there is Peter Ruddy, executive vice president of Goldome Bank, Buffalo, N.Y., who has found weekly therapy meetings to be a "nifty management tool" that has solidified relationships between him and his staff and drastically reduced employee turnover.

That turnover rate, previously 80 percent in data processing systems, is now a manageable 15 percent. In the executive ranks, it has been slashed from 40 percent to practically zero.

Ruddy began the meetings in April, 1984, just a few months after arriving at Goldome. He wanted to get to know his co-workers quickly, and he wanted them to know him. "The meetings give us a chance to talk about 'people things,'" he says. "They're an opportunity to get away from routine business conversation. We've become more real to one another. We've formed relationships that enhance our personal lives and boost productivity." NB

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TECHNOLOGY

High Tech, Not High Pressure

By Jeanne Greenberg

When it comes to high tech sales, forget what you think you know about the characteristics of successful salespeople in other fields.

John Hoffman, vice president of Computer Sciences Corporation in White Plains, N.Y., a provider of computer-based services, says: "High tech salespeople do not sell products or services. What they really sell are solutions—solutions that have to be customized to meet the unique needs of each client."

For three years my firm, Personality Dynamics, has been working closely with high tech companies to overcome their special problems in selecting salespeople. There are, it turns out, a number of substantial differences between successful high tech salespeople and the salespeople who thrive in virtually every other type of business.

In most sales situations, success depends on an inner drive to persuade. For a top salesperson, closing a sale is the ultimate form of persuasion, a great charge for his or her ego.

Generally, the more ego drive, the better. But for someone selling high tech products, too intense a need to persuade can be a hindrance.

Our research shows that success in high tech sales depends more upon knowledge of the product, the ability to communicate with top-level executives, the motive to be of service to others and whether the salesperson has the demeanor of a consultant.

These requirements arise from the very nature of high tech products, which represent significant departures from the past.

Only as a high tech product's possibilities become understood, and its uses more clearly defined, does it become accepted in the marketplace.

Pocket calculators, for example, were initially expensive and really too large to fit in anyone's pocket; they were used only by a few. The marketplace was limited, the uses difficult to comprehend. The need had to be explained—if not created—by the right kind of salespeople.

As Robert Ladavac, a manager for Prime Computer, one of the first manufacturers of minicomputers, puts it, "High tech salespeople do not have to convince just one individual, such as a purchasing agent, within a firm." They have to speak the language of programmers, systems analysts, directors of information, managers of research, financial controllers, vice presidents of marketing, presidents and chief executive officers.

Over time in this kind of selling, one has to know the product well to succeed. The problem is that not all people who are technically oriented can sell. In their basic personality characteristics, the successful salesperson and the successful technician are typically polar opposites.

Still, a technical background is a necessary starting point for high tech sales because clients ask thorough and informed questions, points out Martin Sanfelter, International Business Machines Corporation's marketing manager for Southeast Asia: "Successful high tech salespeople must understand their clients' needs completely, and know the possibilities of their product line—and their competitors'—inside out."

A high tech salesperson's technical credibility is challenged in every step of a transaction.

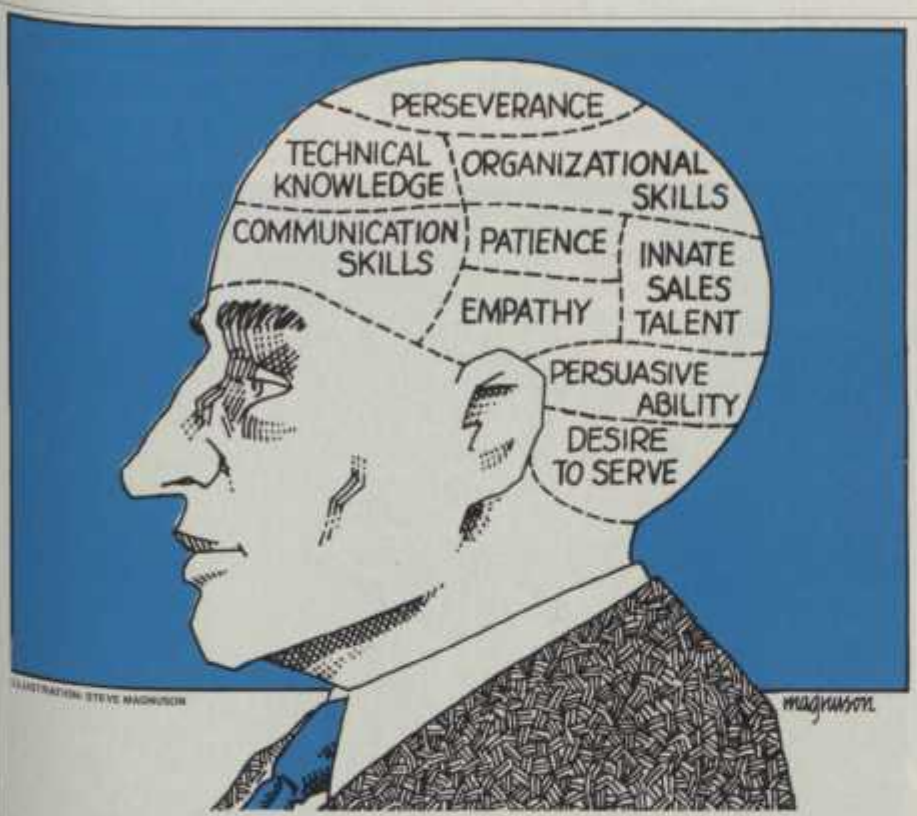
For instance, a salesperson can start out by asking, innocently enough, "What kind of collection basis are you using?" If the prospect responds with a curt "Ten-bit BCD's," the sale can come to a grinding halt unless the salesperson can say something like, "Our binary code decimal base ranges from .1 to .004, which could increase your capabilities immensely."

But that progress can be nipped in the bud if the prospect simply responds, "The floating exponent range of my calibration is more than your system can handle."

At that point, most salespeople would have to excuse themselves, saying something like this: "Well, that is an interesting point. Let me get back to my technical people and see if I can have a response for you first thing in

Jeanne Greenberg is co-chairman of Caliper Management, Inc., a Princeton, N.J.-based psychological testing firm, which has assessed the sales and management effectiveness of more than a half million individuals for more than 11,000 companies.

Salespeople are most successful when they try to be consultants to buyers of advanced technology products.



the morning." By the next morning the prospect may be hard to find.

It takes a rare blend of marketing skills and technical capabilities to be able to sell molecular modeling software to a research chemist, then turn around and sell laboratory and data collection methods to a scientist, and top it off with the sale of linear programing applications to a mathematician.

High tech salespeople must be bright, articulate and confident enough to deal with key executives in major corporations. They need to get their points across forcefully and confidently without appearing pushy or overly aggressive. They must present a professional consultant's image while being open to meeting with people in all types of corporate situations.

In fact, what often develops is a unique relationship in which high tech salespeople are viewed as ancillary employees by their clients. This occurs because a salesperson's responsibility does not end when a product is purchased and installed. Rather, the sale is the start of a continuing relationship in which the salesperson serves as a consultant to the client, troubleshooting problems that might arise and expanding the system as the client's needs evolve.

"There is an enormous amount of consulting involved with every high tech sale," says Donald Walker, vice president of sales for Comshare, Inc., in Ann Arbor, Mich., which provides a computer time-sharing network. "Each client has unique needs—there is no one widget for all problems—and our service must be tailored to meet those needs completely, or we will lose a sale to one of our competitors."

Walker adds that "true success comes over an extended period of time. These are long sales cycles, which means it takes patience, follow-through, persistence and empathy."

What evolves is an individual who is extremely attentive to a client's needs and totally intent on seeking an ideal solution to each client's problems.

Where do you find this new breed of salesperson? Short of hiring twins, one adept in technology, the other in sales, and working them as a team, it is difficult to uncover someone who can stand out in the technical as well as the sales ends of the business world.

Most good people who have both attributes are not looking for new jobs, and even if they were, there are not enough of them to go around.

So, where do you look for those who are not looking?

One of the most overlooked places for finding high tech salespeople is in your own backyard. A potential record-breaking salesperson might be working in your company, doing something completely different, wasting his or her natural ability.

One recent study found that nearly 90 percent of scientific programers and analysts are interested in exploring new computer jobs. Certainly some of these technical adepts will also have the innate ability to sell. Many of them may be at a dead end, with no clear path for advancement from their present positions. Selling might give them a fresh start.

Once you have identified those who have the requisite technical background and the desire and ability to sell, sales training can be effective.

The common thread winding throughout the field of high tech sales is that clients are becoming increasingly sophisticated and knowledgeable before making purchases.

Studies in numerous other industries show that this trend in consumer awareness is having far-reaching consequences throughout the entire sales profession. Well-thought-out and researched questions are being asked before even the most minor acquisitions are made.

And there is little patience with the salesperson who tries to gloss over any concerns or objections.

Just as high technology has affected all aspects of our lives and made consumers demand quality, value and high performance in everything they buy, so the high tech salesperson may be the first of a new breed.

The salesperson who tries to be helpful, to make sure a product will serve the purpose, who knows the product thoroughly and acts as a consultant as much as a persuader is now found primarily in high tech fields. But he or she may be the model for all salespeople in the future. NB

TECHNOLOGY

Small Wonders

By Karen Berney

On Wall Street, where information is the currency of success, Sanford Rich believes he has a leg up on the competition. A trader of low-rated, high-yield bonds for Merrill Lynch, Pierce, Fenner & Smith, Rich says the faster he can size up corporate prospects, the happier he makes himself and his clients.

Now, thanks to a breakthrough in computer data storage, Rich can find out what he needs to know in less than 30 seconds from an electronic directory of more than 10,000 publicly traded corporations. "Not only am I working much more efficiently, but I appear a lot smarter to clients," he reports. "I can reel off facts and figures—debt to equity ratios, revenues, biographies of executives—with a touch of my finger."

Rich is in the vanguard of no more than a few thousand people who are exploiting an evolutionary technology called CD ROM—for compact disc read-only memory. Archival data is prerecorded on a disc; you cannot write, edit or erase files stored on it.

If you have been to a record store in the past two years, you are familiar with CD ROM technology. These discs are an offshoot of the spectacularly popular 4.72-inch, lightweight, plastic-coated digital audio disc that can play about 75 minutes of high fidelity music. Sharing the same physical attributes as the audio disc, a CD ROM stores words instead of sound and packs a whopping 550 million bytes of information. That is roughly equivalent to the capacity of 1,200 5¼-inch floppy disks or 250,000 printed pages. (For reasons known only to technological necromancers, floppies are "disks" and CDs are "discs.")

Like its audio brother, the CD ROM is an optical medium. Data is stored as three-dimensional, silvered pits burned into the disc by a laser beam. A CD ROM peripheral compact disc drive, which plugs into a standard microcomputer, reads the data by a finely focused scanning laser beam reflected from the silvered pits through the disc's transparent upper layer. Thus, retrieving CD ROM data involves no physical contact or wear, preventing loss or degradation of data—a key CD ROM selling point.

What is more, once a CD ROM master recording is made, copies can be stamped out for close to the price of blank floppy disks. When processed in bulk quantities, CD ROMs can cost the manufacturer as little as $10 per disc.

Given this winning combination of low cost and awesome storage space, the computer establishment is greeting CD ROM with unbridled exuberance. At the first international conference on CD ROM, held in Seattle, speaker after speaker trumpeted the technology as an invention on a par with the Gutenberg press. John Messerschmitt, a vice president of North American Philips Corporation (its parent in the Netherlands, along with Sony Corporation, sets both CD ROM and audio disc standards) goes even further: "I believe CD ROM will have an impact on the transfer of information and knowledge not unlike the radio."

Frank Farrell, president of Grolier Electronic Publishing, Inc., holds the contents of a 20-volume encyclopedia in his hand. One of these 4.72-inch discs stores nearly 100 million words—a quarter of a million pages.

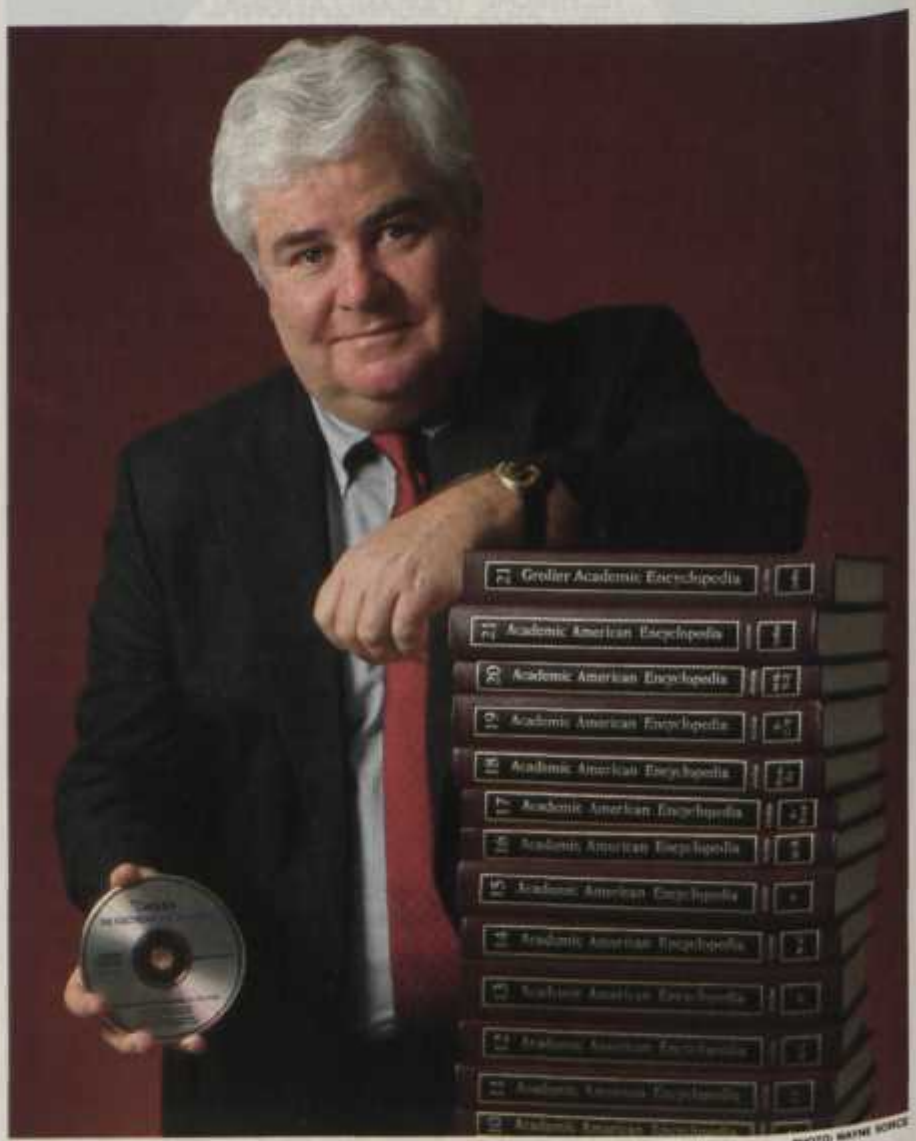


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3M

WASH/PR 4

Compact discs—a favorite among audiophiles— offer massive data storage capacity on a surface no larger than your hand.

But publishers, to whom CD ROM is supposed to have the greatest appeal, are making more modest assessments. Its development is not equivalent to creation of the wheel or the printing press, says Stuart Flexner, editorial director at Random House, Inc., New York. "Rather, this is the invention of the library on a disc, and it is not going to change the world overnight."

Flexner says his firm is interested in CD ROM and might produce a talking dictionary that not only gives meanings but clearly gives pronunciations—though CD ROM products with sound are still two years away. But he stresses: "We plan to move very slowly; we do not want to make any mistakes." Such a conservative approach makes sense, says John Gale, president of the Information Workstation Group, Alexandria, Va., because "if the big multiline publishing houses are not careful, they could end up with CD ROM products that cannibalize other sources of revenue."

Publishers whose core business is distributing data on-line over communications networks, however, do not see CD ROM as a harbinger of the transfer of revenues from one pocket to another but as a way to tap new markets. At Disclosure Information Group, a Bethesda, Md.-based on-line supplier of a database culled from Securities and Exchange Commission filings, "we view CD ROM as enabling us to win customers who have been turned off by the taxi meter syndrome," says Diane Hoffman, director of database services.

The "taxi meter syndrome" occurs when a user is tethered to a remote host computer and operates under the psychological burden of knowing that the meter is always ticking and that mistakes cost time and therefore money. With CD ROM, he pays a fixed cost and can use the disc as often and as long as he likes, says Hoffman. Her company, she adds, is distributing its SEC database on CD ROM as well as licensing it to Datext, Inc., Woburn, Mass., for incorporation into CD ROM products of its own. Datext is supplying Merrill Lynch with a four-disc directory that Sanford Rich uses.

CD ROM is great news for market researchers, strategic planners and financial analysts in small to medium-sized companies "who have been yearning to take advantage of on-line databases but have been unable to get managements' approval to use them because of unpredictable usage fees," notes Linda W. Helgerson. Helgerson, editor of *CD Data Report*, a newsletter published in McLean, Va., says the ability to budget costs in advance is a real plus for CD ROM and should give it an edge over on-line services for many applications.

Janette Schultz, a researcher at Dart & Kraft, Inc., Northbrook, Ill., who tracks corporations for mergers and acquisitions, reports using six different on-line databases, some so often that the yearly fee for each might exceed $10,000. Eagerly awaiting delivery of the four-disc Datext system, which will cost $19,600 a year, she anticipates savings from switching to CD ROM but says cost per se was not her prime consideration.

On-line databases vary in their command logic to search out and retrieve information, she says, and the systems are difficult to learn and require a full-time trained specialist. With the Datext system, "any executive will be able to sit at the terminal and figure out how to operate the system, because there is one simple indexing system," Schultz says. Indeed, Merrill Lynch's Rich, who has been using the system for two months, claims "to have never cracked open the instruction manual."

Replacement of on-line service, though, is not the purpose of CD ROM, says Datext President David Roux. CD ROM is not equipped to handle time-sensitive information that is needed on a daily or even weekly basis. Because it takes 30 days to make a master copy of a new CD ROM disc and mass produce copies, the best Datext can do is issue monthly updates, which are included in its yearly subscription fee, he says. This makes CD ROM most appropriate for publishing data that changes infrequently, and thus will probably "supplement rather than supplant on-line data in most markets," he says.

Consequently, libraries are consid-

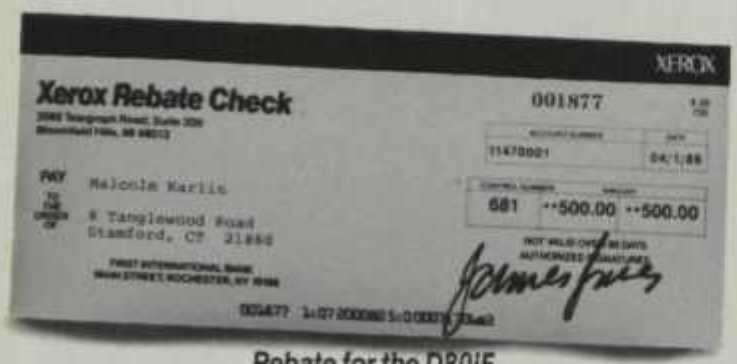
At the United Way in New York, a researcher uses a CD ROM to retrieve information from a corporate database of thousands of companies.

The CD ROM product comes from Disclosure Information Group, Bethesda, Md.

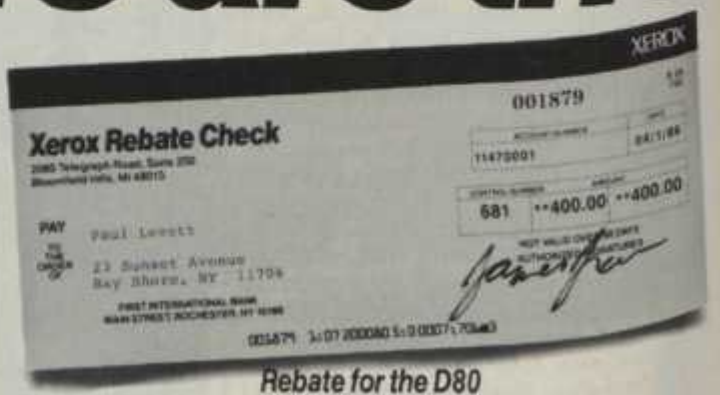


PHOTO: CHRISTOPHER MORRIS—BLACK STAR

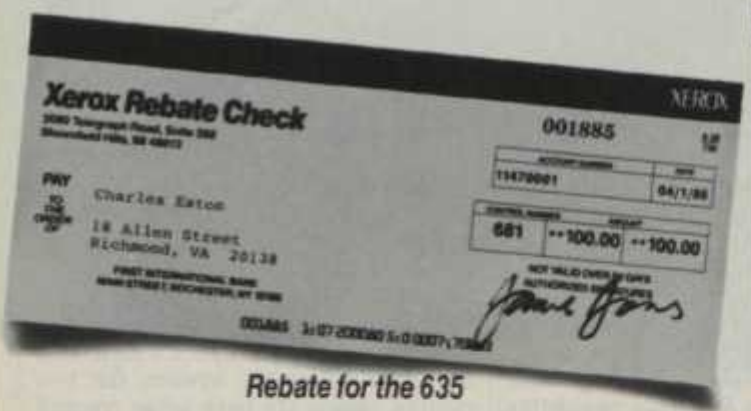
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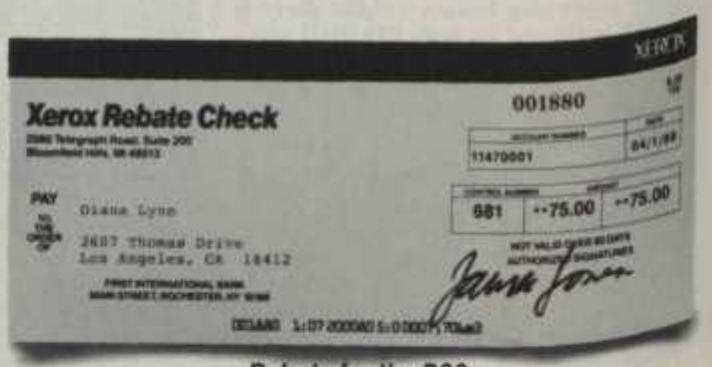
Rebate for the D80IF



Rebate for the D80



Rebate for the 635



Rebate for the P32



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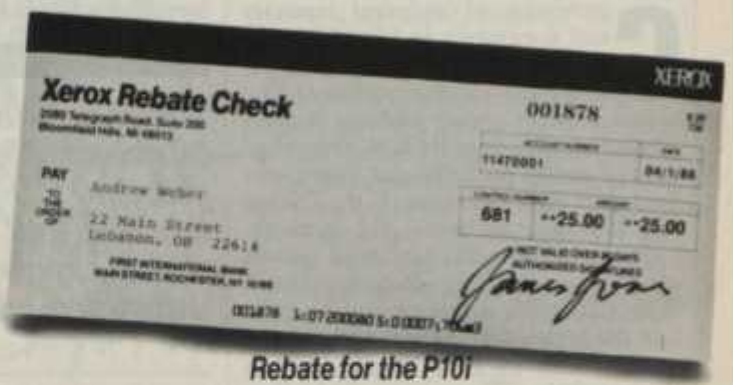
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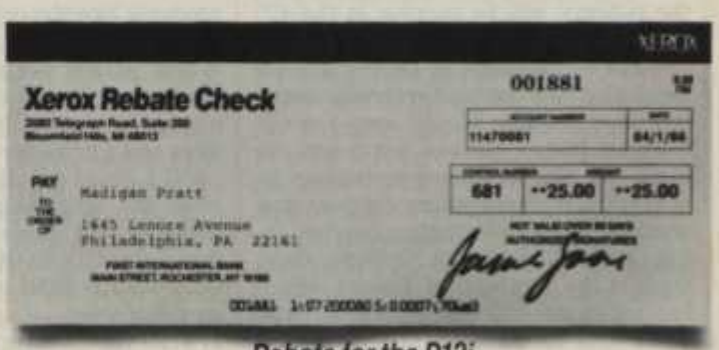
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The Xerox Diablo daisywheel printers offer letter quality printing that can easily meet all your word processing needs.

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ered to be the likeliest initial candidates for CD ROM. In fact, most of an estimated 1,000 CD ROM drives already installed across the country are being used by librarians. The leading supplier, the Library Corporation, in Washington, used to distribute bibliographic reference material on microfiche. Last year it began converting all its databases to CD ROM. "Once you experience the power and ease of CD ROM, you never want to go back to a microfiche reader," asserts President Brower Murphy.

Conversion of technical manuals and documents to CD ROM also figures to play to a big audience, especially in the military. The armed services' paper problem is overwhelming, says Sam Ballard, vice president of optical publishing at Cuneiform Systems, Inc., Nashua, N.H. Taking one M-1 tank to battle, for instance, "would require a 2½-ton truck just to carry the supporting documentation." With CD ROM, a drive could be built into the tanks, and soldiers and maintenance personnel could carry discs in their pockets. "There is no doubt that the military will be moving in the CD ROM direction," Ballard says.

While replacement of technical documentation on paper and reference material on microfiche should keep the CD ROM industry robust for years to come, the longer term opportunities lie in vertical markets where unique value is added to the information, argues Information Workstation Group's Gale. Such is the strategy of Datext, which has rolled six different corporate databases into its package and coupled it with proprietary software to allow retrieval by any combination of 20 criteria. Since January, when Datext started shipping, "sales have been extraordinary," declares Roux, whose next project is a directory of 12,000 high tech firms.

Despite analysts' rosy predictions, there are only a handful of risk takers like Roux and very few CD ROM products on the drawing board. Experts refer to this as the chicken-and-egg problem: Few CD ROM drives are being sold because there is not much to play on them. And why invest in CD ROM product development until there is a big customer base with drives to play the discs?

To get around the customer base obstacle, pioneers like Datext and the Library Corporation are providing CD ROM hardware at cost. "We make no money on equipment," says the Library Corporation's Murphy. "We are supplying CD ROM drives, the controller card and user interface to the microcomputer at cost just to establish market share."

This could all change with a recent Sony-Philips announcement of a new CD ROM format that would enable prerecorded audio segments—voice, music and sound effects—to be included on the disc and played back as part of the user's interaction with text as well as graphics and still-frame video. Dubbed CD-I—compact disc interactive—the format would pave the way for talking products like the one Random House is wistfully thinking about. Furthermore, it will permit design of one piece of equipment that functions both as a player for both CD-I discs and audio discs and a drive for text-only CD ROM.

The computer establishment is greeting CD ROMs' low cost and awesome storage space with unbridled exuberance.

CD-I could be the catalyst that revives the languishing home computer industry and generates consumer demand for CD ROM, analysts believe. Only one CD ROM consumer product is on the market—an encyclopedia priced at $199 for the disc (which contains 20 volumes of information) and $1,500 for the drive from Grolier Electronic Publishing, Inc., New York. Those prices may not draw many customers.

"Would you shell out $1,500 just to help your kids write term papers?" Gale asks. "Most likely, no." However, he contends, if you could buy a unit in the $300 to $400 range that runs the gamut of compact disc spinoffs, you probably would not hesitate to spend $199 for the CD ROM encyclopedia and other discs providing what he calls "edutainment."

You might also wire your car with a viewer attached to this dual drive-player to display digitally encoded, CD ROM street maps, says Donald Cooke, chairman of Graphic Data Technology, Inc., Lyme, N.H. "The point to remember is that one CD ROM can store a complete map of every street in New England plus 300 unabridged copies of *Moby Dick*."

At the Record Group, a Philips subsidiary in Burbank, Calif., President Stan Cornyn says he is one year away from demonstrating his first prototype based on the CD-I format, an interactive walking tour of London in the century you choose hosted by the historical luminary of your liking—Shakespeare or Dickens, for instance.

Perhaps even sooner on the scene than CD-I discs will be write-once, read-many-times media—WORMs. These would be good for high volume storage and permanent transaction recording where preserving data integrity is the top priority. WORMs will emerge by the end of the year to be followed 18 months later by erasable optical discs "that will eventually replace hard disks," Gale predicts. But for now, he refers to CD ROM "as the only believable, usable product."

Standards have been a source of disagreement inhibiting both development and user interest, notes Ann Armstrong, managing editor of *CD Data Report*. At the Seattle conference, however, vendors indicated the imminent emergence of one format for arranging data on CD ROM. For users this means certainty that any CD ROM title will play on any manufacturers' drive, Armstrong reports.

Moreover, prices of drives are dropping fast. Drives that today sell for $1,000 to $1,500 should be available for less than $500 from such firms as Denon America, Inc., a subsidiary of Tokyo-based Nippon Columbia, Ltd., early next year.

Remaining uncertain is exactly what kind of information will be sold on CD ROMs. Voluminous professional and reference works, like law and pharmaceutical books, are naturals. But what about a CD ROM containing every recipe published over the past 10 years?

Publishers are nervous about recovering the investment needed to sustain such new product development. Yet, just as the publishing industry adapted and profited from software distribution on- and off-line, "it will find ways to shape its resources into creative CD ROM products," says Howard Webber, a vice president and publisher at Houghton Mifflin Company, Boston.

Echoing the view of many publishers, George Wallace, a vice president and general manager of McGraw-Hill, Inc., New York, says the technology "is so persuasive and powerful that it cannot help but drive us toward resolution." NB

And The Winners Are . . .

Business-to-business advertisers explain their tactics for producing award-winning promotions.

By Nancy L. Croft

This year, the judges in NATION'S BUSINESS' third annual Best Business Advertising Competition were hooked on two bright fish and had their funny bones tickled by two hemmers and hawers.

AT&T Information Systems and its ad agency, Ogilvy & Mather, surfaced as the winner in the print category. The judges—NATION'S BUSINESS readers—applauded an ad that features an article-like text accompanied by a vivid illustration of a spunky little fish about to gobble its larger prey.

Federal Express and Ally & Gargano, Inc., gave a repeat performance in the top spot of the broadcast category. Two years ago, this team won first place for an ad featuring a motor mouth. The Federal Express commercial that won this year compares the company's speedy service with fictitious air express companies whose comical representatives slowly mumble their way through customers' questions about a money-back guarantee of on-time delivery.

The Best Business Advertising Competition gives NATION'S BUSINESS readers the chance to judge what they think are the most effective business-to-business ads. This year they chose from 12 print ads and eight television commercials presented in the February issue. The ads were nominated by top creative executives of leading U.S. advertising agencies as well as by leading business advertisers.

Readers were encouraged to explain on their ballots why they thought particular ads were effective. Such comments help advertisers pinpoint what captures a target audience's attention.

Second place in the print category went to General Motors' Electro-Motive Division and the Martin Agency, of Richmond—the only winning agency not in New York. The black-and-white ad featuring Frankenstein's monster, says one reader, a general counsel of a mid-size manufacturing company, "stops you cold even if you are just thumbing through a periodical." Third place went to Cigna Corporation and Doyle Dane Bernbach U.S., for an ad featuring basketball player Julius "Dr. J." Erving.

In broadcast, Xerox and Needham Harper Worldwide came in a close second for a commercial that tells how two small businessmen win a big account aided by a "team" of Xerox office equipment. Says one reader, a vice president of a small trade association: "I think the entire 'Team Xerox' campaign conveys a strong message to business—technology as a partner." IBM Typewriters and Doyle Dane Bernbach placed third for a humorous commercial promoting the Spell Check feature of IBM's Selectric System/2000 typewriters.



Ads that are to the point, witty, have a snappy design or give the reader useful information are what NATION'S BUSINESS readers say they find most appealing. Ogilvy & Mather had all of these features in mind when creating the fish for its client.

AT&T Information Systems wanted to educate senior executives not only about its products, but also about how communications technology and computer technology work together to create a competitive advantage.

Communications technology, says Christopher Moore, senior vice president and associate creative director at Ogilvy & Mather, "is a very cluttered environment, full of ads, and our particular category of high technology couldn't be more confusing." The ad agency's goal was to "set down something of stunning simplicity and subtle purpose against this confusing and turbulent environment," Moore says.

Originally, the creative team assigned to the AT&T account designed two ads for the client to choose from. One was written in the form of an article, with no illustration. "It was very insightful, useful and boring," Moore says. The other ad was "tremendously attractive and highly pictorial" but contained few words.

AT&T Information Systems showed a test group of consumers the two examples, but the group chose neither. "Our focus group showed us that the customers like the strong graphic approach and the long copy," says an AT&T spokesperson. The company conferred with Ogilvy & Mather about combining the two ads. "It was one of those cases where the client was absolutely right," although creative team members hated to admit they did not think of the idea first, says Moore.

Two pages of text detail examples of how various companies have used information systems to compete.

The brilliantly colored fish are used for stopping power, says Moore: "If you flip through a magazine, you see one computer after another, and they all look alike. We wanted a picture that would jump out of the magazine—be provocative enough to look like something more than just a picture in an ad."

Federal Express has long been known for on-time delivery, but with more and more air express companies making the same promises, Federal needed a fresh angle to keep its service ahead of the pack, says Denis Glennon, management supervisor at the company's ad agency, Ally & Gargano.

"The 'hemming and hawing' commercial was created to introduce the first money-back industry guarantee of on-time delivery and a guarantee that if you call us wanting to know the status of your package, we will get back to you within 30 minutes or you also get your money back," says Nancy Altenburg, Federal Express senior manager of corporate advertising.

The Ally & Gargano creative team assigned to this campaign used the two guarantees to convey Federal Express'

And The Winners Are . . .

1985 Best Business Advertising PRINT

Ogilvy & Mather's creative team reeled in a winning ad for AT&T. Jay Jasper (left) directed Christopher Moore (top), who wrote the text, and Greg Campbell, who designed the illustration.

PHOTO: TED MARCH



First Place
Advertiser: AT&T Information Systems
Agency: Ogilvy & Mather





Second Place
Advertiser: Electro-Motive Division of GM
Agency: The Martin Agency, Inc.



Third Place
Advertiser: Cigna
Agency: Doyle Dane Bernbach U.S.

1985 Best Business Advertising BROADCAST

Denis Glennon (right) led an Ally & Gargano team for Federal Express that included artist Michael Tesch and writer Patrick Kelly, who is present here only in the photo at left.

PHOTO: MARIO RUIZ—PICTURE GROUP



First Place
Advertiser: Federal Express
Agency: Ally & Gargano, Inc.



ANNOUNCER: Call any air express company and ask if they'll guarantee to give the exact status of your package within 30 minutes, or your money back.



GUY: Yeah, wellllahhhyouknowahhsee ahh, the thing is . . .



ANNOUNCER: Call someone else and ask if they'll guarantee to deliver your package on time, or your money back.
GUY 2: Well, gee, I erahh, gosh, well ahh . . .



ANNOUNCER: Then call Federal Express and ask us the same question. FEDERAL CLERK: Absolutely, positively or your money back, sir.

Second Place: Advertiser: Xerox ■ Agency: Needham Harper Worldwide, Inc.



ANNOUNCER: It's a small company. In fact, you're looking at the entire staff. But to the client they looked as professional as their biggest competitors.



Maybe that's because they had the help of Team Xerox. Everything looked perfect with their Xerox Memorywriter.



And they got big copier features right on their desk with a new Xerox Marathon copier.
At 9 a.m. they presented their case.



By 4 p.m. they got one with a note saying "Please thank your staff for such great work." Which, happily, they did.
PARTNERS: We got it! We got it!

Third Place: Advertiser: IBM Typewriters ■ Agency: Doyle Dane Bernbach U.S.



ANNOUNCER: Imagine if something could signal you when you made a spelling mistake. That would mean you'd be able to correct it . . .



before anyone else ever saw it. Well, IBM Selectric System/2000 Typewriters with Spell Check can do that.



It's an electronic "dictionary" that signals you when you misspell a word.
So now if you make a spelling mistake



. . . the whole world doesn't have to know.
SINGERS: We're your . . . type.

competitive edge. "Other companies make claims to on-time delivery, but if an air express company won't provide a money-back guarantee, it should raise the question in the user's mind as to what extent the air express company even trusts itself," remarks Glennon.

Keeping the humorous approach Federal Express ads are famous for, the hemmers and hawers depict exaggerations of real-life experiences that air express users have had when inquiring about a money-back guarantee, according to Glennon. He says this exaggerated approach works best to stress the importance of on-time delivery, "because people are sending more and more packages, and they feel more of their professional responsibility is hinged on the packages arriving where they need to be on time."

According to the judges, the team achieved its goal. "My 4-year-old mimics it constantly," one reader says. "It gets the point across to even the simplest of minds." Comments another: "It makes light of an exasperating problem and offers a guaranteed solution."

All the ad agency creative people and their clients agree that teamwork is essential to creating a winning ad. The agency and the company commissioning the advertising must work together closely to communicate the intended message.

Thomas Cobb, vice president of marketing for Cigna Corporation, says its agency, Doyle Dane Bernbach, is well-educated about the corporation and its marketing objectives. "I regard our agency as a fundamental part of our marketing team. They are involved in every point of our marketing planning process, from the development of initial business strategies all the way through execution."

William Yankus, senior vice president and management supervisor on the Cigna account at Doyle Dane Bernbach, says the client must be just as involved with the agency's work as the agency is with its client's objectives. "The marketing department is very involved with the agency on company objectives," Yankus says. "It doesn't just tell the agency to produce ads. An agency can create advertising in a vacuum, but it tends to be advertising that doesn't say anything. We've been immersed in Cigna Corporation, and we're not stretching to come up with things to talk about."

Despite involvement and cooperation, brilliant ads are not always the product of flashes of inspiration alone. A lot of revision can be involved. The initial concept of the Xerox ad "wasn't believable," says James Lawson, senior vice president and associate creative director at Needham Harper Worldwide.

He recalls that he did not believe a new copier and typewriter alone would win the two businessmen characters a new account. So the ad was revised. When the two small businessmen win their big contract, a message appears on their computer screen indicating that the new client says it was the most professional presentation he has seen in years. "As long as we don't claim that Xerox did everything, people will believe it and certainly accept that Xerox can help their business," says Lawson.

Experts at agencies honored as runners-up in this year's Best Business Advertising competition have clear ideas about what it takes to come up with winners. Says Hal Tench, creative supervisor and art director for the Martin Agency: "The big danger in business-to-business advertising is this: People tend to forget that what you're really talking about is no different than any other kind of advertising. You need to talk person-to-person. In a lot of business-to-business advertising, you get a lot of jargon and technical data that someone thinks is important. You get bogged down."

"The risks are higher in business-to-business advertising," observes Ogilvy & Mather's Moore. He says ads need to have substance, not hype. "If I'm going to ask somebody to spend $1 million on an information system, that's a big deal. Some people depend for their lives on these things."

Needham Harper Worldwide's Lawson advises companies commissioning advertising to accept nothing less than the best. He says: "Very often clients will say, 'As long as it fits my basic objectives, then I guess the advertising must be good.' But they know inside that the advertising isn't good.

"Good advertising really gets to you. It excites and amuses you. It should present a new way of looking at things." NB

Making The Grade With Junior Achievers

Advertisers can take a lesson from today's youth. They, too, have solid ideas of what they like in advertising. "It doesn't matter if you are 13 or 40, the same things still grab you in advertising," says John D. Norris, instructor of a Project Business course sponsored by Junior Achievement at New Caney Middle School outside Houston, Tex.

All Junior Achievement courses are funded and taught by private industry. Norris, an employee relations specialist at Texaco USA, each week teaches two eighth grade classes about the free enterprise system. Texaco has 10 employees participating in the 15-week Project Business course to give Houston middle schoolers a basic knowledge of business and economic issues.

"Part of studying our economic system is understanding the role advertising plays," Norris says. "When I saw the Best Business Advertising contest, I thought, 'What better way to teach the power of advertising than to use what has been determined to be the best?' "

Norris says that although the competition features business-to-business advertisements, anyone's response to effective advertising is essentially the same as that of people in business.

This is the second year Norris has asked his class to make choices in the Best Business Advertising competition. This year, he sent NATION'S BUSINESS the classes' results. The clutch of 35 youngsters shared the same opinion in the print category as the majority of adult business people whose votes were officially tallied.

The eighth graders selected AT&T's fish ad as winner because "they thought the ad was colorful, and it grabbed them right up front," says Norris. "They also thought it was amusing that the little fish would have the ambition to gobble up the big fish."

IBM Typewriters' television ad, which took third place in the NATION'S BUSINESS competition, rated first with the students.

"They chose it because it was humorous," says Norris. "They really understood the play on words of the ad's slogan, 'We're Your Type.' "

PEOPLE

Making It

Roller coaster rehabs; chic sheep fashions; homegrown, upscale folk instruments; one magic phone call.

Recycling Roller Coasters

Charlie Dinn gives new life to roller coasters, like the Wild 1 at Wild World Family Amusement Park in Largo, Md., by moving them and restoring them to their original glory.



PHOTO: MICHAEL ANDERSON

The strange caravan picked up I-95 near Boston and snaked its way southward. Motorists passing the slow-moving procession strained to see the cargo lashed to the elongated trailer beds. Each of the 12 trailers carried 50-foot by 9-foot slabs of what looked like components of a giant Tinkertoy structure.

Charlie Dinn was at it again. The taciturn ("I never tell people my age") 20-year construction veteran has put together a successful contracting firm that not only builds new roller coasters but moves old ones.

Dinn characteristically refuses to disclose his annual volume of business, but, based upon his current projects, a seat-of-the-pants estimate of $5 million a year seems reasonable.

That is quite a step up for the former director of construction, maintenance and engineering at King's Island theme park near Cincinnati. There, Dinn established his reputation by giving birth to the Beast in April, 1979. Listed in the *Guinness Book of World Records* as the world's longest wooden roller coaster, it is rated one of the country's best by many enthusiasts.

With the Beast to his credit, Dinn established his own 17-employee corporation in Cincinnati.

Dinn is one of the few contractors with the skill, knowledge and experience to fashion a new roller coaster from scratch.

He is also the only one who has learned how to save an old coaster from oblivion.

A new wooden roller coaster can cost about $3 million, and a magnificent one such as the Beast might run as high as $10 million at today's prices. But Dinn can move, refurbish and reassemble an old coaster for a comparatively paltry $1 million.

Dinn's first such feat was to move the Rocket from San Antonio's Playland to a new site at Knoebel's Grove, Pa. When the historic Rocket was in place, the park appropriately renamed it the Phoenix. It opened in the spring of 1985 and thereby established a trend.

The next park to capitalize on this new nostalgia was Wild World Family Amusement Park in Largo, Md., which decided to add a roller coaster to its collection of water rides and other attractions.

When Boston's Paragon Park closed in order to give way to a housing development, Wild World's General Manager Mark Mason bought its famed 70-year-old Giant Coaster at auction for $28,000 and hired Dinn to move it.

"The biggest thing we were able to save was the design of it," says Mason. "Building a roller coaster has a lot of art to it. You can spend a lot of money

Recycling Roller Coasters

and still not get a great coaster." Built in 1917, the Giant was damaged by a fire in 1962 and was only partially rebuilt.

In its pristine form, the Giant treated its riders to a speedy and thrilling journey and then, just when the ride seemed to be coming to an end, suddenly lifted them up a short, sharp hill and spun them 1½ turns in a tight spiral helix. That final helix had never been rebuilt.

Even in its incomplete form the Giant was one of the best coasters in the world. But when, in its new incarnation as the Wild 1, it opened this spring at its new location, it featured Dinn's reconstruction of the historic and thrilling final helix.

Concurrent with his reconstruction of the Wild 1, Dinn tore down and completely rebuilt the 3,000-foot-long, 75-foot-high Comet at Lake Compounce Amusement Park in Bristol, Conn.

Then, having completed work on three major roller coasters in one year, he hit the road to finalize still-secret plans for a new roller coaster "somewhere in Michigan" and to discuss moving an old coaster from Florida to "somewhere else."

But he will return to the sites of his former triumphs, if only to visit.

"They get to be kind of like your kids," Dinn muses as he stares up at the latticework superstructure of the Wild 1. "You go back to see how they are doing. You get to know each one personally."

—William Hoffer

Customers In Sheep's Clothing

Eric and Jean Flaxenburg say their country home, near Elverson, Pa., is the location of "America's most elegant cottage industry," producing top-quality sheepskin coats and knitted garments.



PHOTO: MICHAEL AHEARN

When Jean and Eric Flaxenburg married 20 years ago, they bought an 18th century stone farmhouse on 40 acres in Pennsylvania Dutch country, near the village of Elverson. They stocked the farm with six sheep and settled down to a life of pastoral serenity, flawed only by Eric's 100-mile roundtrip daily commute to Philadelphia, where he was vice president of his father's industrial packaging company.

Sheep, about 50 now, still graze outside the Flaxenburgs' windows, and the farm, bordered on three sides by French Creek State Park, is as lovely as ever. But some of the serenity has given way to the Flaxenburgs' livelihood.

They now preside over French Creek Sheep & Wool Company, which specializes in top quality handcrafted sweaters (including cashmeres costing $750) and coats (from around $400 to over $1,700). They call it "America's most elegant cottage industry." And with $5 million in sales annually, mail orders pouring in from around the country (from customers including Burt Reynolds, Kenny Rogers and Ginger Rogers), and work rooms, a computer operation and a retail shop in the barn, things down on the farm aren't quite what they once were.

Seth, born in 1968, the first of their five children, was a colicky baby. They found that when he lay on a sheepskin, he was quiet. So Jean, who had grown up on a chicken farm and studied and worked as a clothing designer, stitched up a sheepskin bunting for the baby to sleep in. That worked, too. "He was our first customer," says Jean.

Their second customer was a New York department store that bought a dozen buntings from Eric at $20 apiece and sold them for $75 each.

When Seth outgrew his bunting, Jean made him a little sheepskin coat. It drew so much admiration that Jean said, "Why don't we make them for adults?"

Discouraged by how slow the department store was in paying its bills, the Flaxenburgs decided to sell their garments themselves, via mail order—they produced a catalog—and a small retail outlet on the farm.

They hired one helper and then another, and moved their operation from the farmhouse basement to their barn. Eric dates the actual start of French Creek Sheep & Wool from November, 1971, the month he persuaded the *New York Times* to do an article on the fledgling company. "It put us in business," he says. After it was published, "there were all these cars with New York license plates parked out here, and these people were waiting to get in the door." The article also produced a deluge of requests for their catalog.

Eric quit his father's company and went home to work full-time at French Creek. Eric says Jean understands clothing design and "the nitty-gritty of manufacturing" while he supplies the entrepreneurial drive and organization.

Until recently, about half of the 60 or so people employed by French Creek have been women making garments in their own homes. But that is changing, much to the Flaxenburgs' chagrin. Such an arrangement is costly and inefficient in the first place, Eric explains, but government rules and interference make it even more costly. So they are phasing out their work with local cottage industry and turning to more machinery and small contractors.

The Flaxenburgs, whose catalog now includes dresses, skirts, boots and slippers, hope to expand by opening more stores. They would like to start nearby in Philadelphia but are also looking at Washington and Boston.

And they expect to bring something of the French Creek aura into those stores, filling them with what Eric calls "rural drama."

—Sharon Nelton

High-Strung Wholesaling

Ray Mooers, owner of Seattle-based Dusty Strings, and employee Connie Keen check the tuning of a hammered dulcimer that will be priced about $1,000.



PHOTO: DOUG WILSON—BLACK STAR

Few people who stop to listen to the strange music of the hammered dulcimer know what the instrument is. When restaurant manager Ray Mooers asked, at a 1977 folk festival, the musician sitting at the dulcimer could have answered, "Your future."

Since that day, Mooers has changed forever the notion that quality folk instruments must be made one at a time by a single craftsman in a sawdust-covered mountaintop workroom. By wholesaling the hammered dulcimers, his Seattle-based company, Dusty Strings, has redefined the business of independent folk instrument builders. It has also become the nation's largest builder of hammered dulcimers.

Mooers' business evolved gradually from building dulcimers part time in his basement to building them full time to hiring his first assistant. In his first year he sold 130 dulcimers, priced from $195 to $500, depending on the quality of materials and amount of custom detailing. Hammered dulcimers are played with lightweight, wooden hammers, and they are frequently confused with Appalachian dulcimers, which are plucked or strummed.

Eventually five people were crammed into his basement turning out hammered dulcimers. At this point the dining room was a showroom. The garage and second bedroom were catching all the overflow.

"I was stretching local zoning regulations by using 60 percent of my house for business, so it was clearly time to move the shop," Mooers says. "We were lucky to find a warehouse and fit it out according to our needs. We were in a high production mode in those days. Half of us were working to pull the new shop together, the other half were building instruments at home. The last step was bringing the tools over and plugging them in. We just kept going." Mooers then began wholesaling his instruments.

"We often had a three-month waiting list," he says. "By making production more efficient, we could not only keep up but we could also stock 100 music stores throughout the country with our dulcimers."

While most individual folk instrument makers are still building to order in their shops, Mooers has an eight-person staff producing handmade, finely finished dulcimers that are as beautiful to look at as they are to listen to. Each person who works on a dulcimer signs its label, which can be seen inside the instrument through the left sound hole. Dusty Strings' new 5,000-square-foot address includes both the workshop and a store offering dulcimers and other instruments, books, records and supplies.

Mooers also consulted with the most prestigious U.S. dulcimer builder, Sam Rizzetta, and one of the most popular players, John McCutcheon, to build a top-of-the-line professional model. Rizzetta, who is not interested in high-production business, gladly gave Mooers the technical advice he needed. McCutcheon added more insight from the performer's point of view.

Mooers' sales have increased from that initial 130 dulcimers to 1,000 last year. The top-of-the-line model is retailing for close to $1,000.

At one point during the evolution of Dusty Strings, Mooers hired a management consultant to help point out the business way for this group of craftsmen. When the consultant advised getting a bank loan, Mooers knew the company was better off bucking business tradition.

"We've had no role models and have always known we were taking risks," he says. "But we have never had to go into debt—never needed to—so we are doing just fine doing what we wanted to."

—Martha I. Finney

Making It

PEOPLE

Well-Designed Rescue

Valerie and Steve Bursten were doing very well building Decorating Den as a franchise—until they discovered their holdings had no value. They brought in James Bugg (in van), and the Bethesda, Md., company has become, says Steve, "a runaway success."



PHOTO: D. TODD MOORE

Valerie Bursten says she *really* learned the art of selling in 1983 when, as a result of the recession of the previous two years, Decorating Den Systems, Inc., the company she and husband Steve founded in 1970, nearly failed.

Decorating Den is a nationwide interior decorating shop-at-home and consulting service. Franchisees take colorful vans filled with more than 3,000 samples of carpeting, draperies and wall coverings directly to customers' homes.

It was an idea Steve had dreamed up when he was based in Kansas City, selling fabric wholesale. (He once named a fabric after Valerie. "I came in 23 colors," she says.)

Steve envisioned a more systematic approach to the retailing of interior design products and services. And he saw a void in the market: middle-income homeowners who could not afford to hire a professional decorator. He persuaded Valerie to move from Kansas City to Indianapolis so their new company could be near suppliers.

By 1980 combined retail sales and sales of Decorating Den franchises topped $10 million annually. But two years later, although there was a small profit, sales had dropped to $8.4 million. And in April, 1983, the Burstens received an internal operating financial statement that told a hard truth: Their personal holdings in the company were completely wiped out.

Within two weeks, they had to go into the annual meeting of their franchisees, put on a happy face and, says Steve, "tell everyone how wonderful everything was." Somehow, they did it.

The Burstens decided they had two choices: to accept defeat or to fight back. They chose to fight.

"The one thing I don't like is being poor," says Valerie.

They cut back employees to the point where Valerie and Steve were the only ones selling franchises. They cut travel and overhead expenses. They didn't have the money to hire a much-needed manager for their southeastern region, so Valerie took the job on herself.

"I had to sell franchises over the phone, and that's when I started getting really good," she says.

By the end of the year, they had restored their losses, boosted sales to $9.2 million and even increased corporate net worth by $15,000 to $170,000.

One evening in 1984, Valerie returned a call to James S. Bugg, of Chevy Chase, Md., who had phoned earlier that day after reading about Decorating Den in a *Woman's Day* article. It turned out to be the magic phone call.

Bugg had been one of the powerhouses who transformed Century 21 into a large national real estate franchise system. He and his wife, Carol, an interior designer, had thought of starting their own decorating franchise. But after making inquiries about Decorating Den, talking with the Burstens and attending one of their regional meetings, Bugg was convinced he could come out of retirement and do for them what he had done for Century 21.

The Burstens were convinced, too. The following November, they took Bugg on as partner and named him president. He brought in Maurice H. Stans, former Secretary of Commerce and a business associate from Bugg's Century 21 days, to serve as financial consultant.

Carol Bugg has become Decorating Den's regional director in the Washington area.

"Val and I were on a good comeback trail, but Jim has made the company a breakthrough, runaway success," says Steve, who continues as chairman.

While Steve says he has the recipe for making a Decorating Den business successful, Bugg brought to the table a franchise marketing ability that has had a dramatic impact on the company.

Using strategies borrowed from Century 21, Bugg organized a regional system of selling franchises. And, says Steve, "he gets franchisees who are as committed and involved in the company as I am personally."

The number of franchises doubled to more than 300 in 1985 and is expected to double again this year.

Sales, projected at $12 million in 1985, jumped to $13.1 million, and the company's net worth climbed to nearly $500,000. "We're excited about the future," says Bugg. "Upscale, quality products for the home are very much in demand as baby-boomers mature. With two thirds of women working, appointments available evenings and weekends are more important than ever."

In April, Decorating Den's corporate headquarters were relocated to Bethesda, Md.

Steve says he agreed to the move so his president "wouldn't have to continue living on airplanes."

Some of Decorating Den's franchise owners do as much as $200,000 or $300,000 in annual sales operating out of their homes, and one three-way partnership in a retail location in Florida recently became the company's first franchise to top $1 million.

But Steve Bursten reflects on the tough days three years ago when he and Valerie had to sell at least one or two franchises a month just to keep Decorating Den from going out of business. He agrees that that was when Valerie really became good, inspiring people to spend their own money to fly to Indianapolis and talk with them about making a $20,000 investment in a business.

"Then," says Steve, "she made the biggest sale of all, because she invited a person who became the president of our company."

—Sharon Nelton

CANADA











C A N A D A

A Giant Awakens

Canadians have alluring packages to offer U.S. business people who are considering investments north of the border.

Something extraordinary is happening out on the Canadian prairie that belies its American image as an icy wasteland dotted by lonely churning oil derricks and scattered herds of cattle. A high tech society is beginning to bloom in the province of Alberta. It is symbolized by the West Edmonton Mall, the world's first "mega-mall," the size of 44 football fields.

While snowy winds blow outside, Albertans will soon be able to work on their tans at the mega-mall's indoor 65,000-square-foot lake under an artificial sun, or water ski, then body surf in a five-acre wave pool. The mall already has more than 800 stores and 15,000 employees. Its Fantasyland is the biggest indoor amusement park in the world. There are mini-zoos and aquaria, and West Edmonton will soon have replicas of a New Orleans street and a European wing with boutiques, cafes and nightclubs.

Canada as a whole, in fact, is awakening from a sluggish period of government-directed economics and is moving onto a free-enterprise fast track—thanks to the pro-business policies Prime Minister Brian Mulroney reestablished after his election in 1984. Canada's new motto is: "Open for Business."

It is more than a motto. The Mulroney government quickly swept away government programs designed to discourage foreigners from doing business in Canada and created a bold new agency called Investment Canada. It is privatizing government-owned corporations, deregulating industries, pressing for freer trade policies and giving Canada's bureaucracy directions to better assist business people.

At the same time Canada's 10 provincial governments have launched aggressive investment-garnering campaigns aimed at blending Canadian with foreign resources. They have very alluring packages to offer American business people who are considering either investments or joint ventures. These open-arms campaigns are now being bolstered—instead of thwarted—by the federal government in Ottawa.

Ontario is already one of the world's leading high tech centers. Here a worker handles atomic energy with a remote manipulating arm.



PHOTO © 1984, ROGER RESSMEYER/DAY IN THE LIFE OF CANADA

There is a renewed sense of confidence in Canada. Canadians are proud that their country has the seventh largest gross national product in the world, more than its share of natural resources and a highly able population. They believe they can do business with anyone to mutual advantage.

Recent economic statistics warrant pride. The Organization for Economic Cooperation and Development predicts Canada's GNP growth this year will be second only to Japan's. That is with a mere 4 percent inflation rate.

Much of Canada's economic strength arises from its exporting ability. It is the second most export-oriented country in the world—just behind West Germany—on a per capita basis. Canadian exports have grown at an astonishing rate of 13.6 percent yearly since 1975. Canadians earn the world's fourth highest annual per capita income.

Canadians, however, are quite inept in one important area, concedes one of the country's most engaging salesmen, Sinclair Stevens, federal minister of regional industrial expansion. With a twinkle in his eye, Stevens says, "Canadians need to learn to brag more about their accomplishments."

Stevens adds: "Canada has broken with the past. Canada has discarded obstacles to economic growth and business development. And the most recent data on Canada's economic performance clearly demonstrate we are on the right track.

"Canadians are building on a solid base of knowledge, experience and ingenuity. International investors who have come to Canada have taken advantage of one of the world's most sophisticated technological infrastructures. Our communications system sets the world standard, from voicetext and data communications facilities to videotex and fiber optic technology."

Stevens and Investment Canada President Paul Labbé make a very compelling case for doing business in their country.

Labbé is an example of the Mulroney entrepreneurial spirit. A successful export trading company executive before being tapped to run Investment Canada, Labbé has styled his federal agency with a keen eye on business people's needs. Trading internationally has given him a perspective that should be welcome to Americans who want both the production advantages Canada offers and Canadians' unique window on the world.

"Canadian and U.S. business people can work together to capture a lot of international markets around the world," says Labbé. "Particularly in the Third World markets, where people are looking for technology but are hesitant about dealing with huge American concerns. We Canadians are less threatening. Also, Canadians have a far better understanding of various cultures and the types of problems they face than Americans. In many ways we're closer to them, being a smaller country relative to the United States."

Labbé continues: "We, Canada and the United States, are in this together. The world's changing. We'll get swamped by the waves of imports unless we deal with the rest of the world as North Americans."

Here are some notable investment pluses Canada offers:

On The Cover

Background: fishing in Saskatchewan by Allen Harvey/Tourism Canada. From top: New Brunswick coast by Stephanie Maze/*Day in the Life of Canada* © 1984; Calgary skyline by Gary Chapman/*Day in the Life of Canada* © 1984; Ottawa by Bob Anderson/Tourism Canada; Inuit by Harvey Mattison/*Day in the Life of Canada* © 1984; Royal Mounted Policeman by Bob Anderson/Tourism Canada.

Who does more business with America than America does with Japan?



ONTARIO

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ONTARIO CANADA

Hugh P. O'Neil
Minister of Industry, Trade and Technology

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With the formation of Investment Canada, the Canadian Government has placed the welcome mat out to foreign investors. That's why, these days, Canada is where you'll find the companies that want their money to work the hardest for them. That, plus so many other good reasons.

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The Market. Within one day's road or rail transportation of the Canada/U.S. border there are 150 million North American consumers.

Financial Dynamism. Canada's five largest banks rank among the largest in the world. And a recent European Management Forum survey has ranked Canada among the world leaders in freedom of capital, availability of risk capital, entrepreneurial initiative, and potential for private banking credit to business. In annual GNP growth, the O.E.C.D. ranks Canada second only to Japan.

Technology. Canada is an innovative world leader in fiber optics, cable television, videotex, and satellite communications.

Canada is clearly the country of today and the future for the knowledgeable investor. Send for a handbook describing investment opportunities in Canada, and discover why your company's business ventures should be heading here.

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INVESTMENT CANADA

Circle No. 10 on Reader Service Card.

C A N A D A

A Giant Awakens

The Hugh Keenlyside Dam in British Columbia is one of numerous hydroelectric projects whose abundant, cheap energy is a business plus. Canadian banking services are among the most sophisticated in the world, and banks also have great import-export experience.



PHOTO: SSC PHOTOCENTRE—GEORGE HUNTER



PHOTO: BANK OF MONTREAL

- The U.S. dollar is valued highly against the Canadian dollar.
- On average, labor is about $4 an hour less costly than in the States. And it actually is cheaper still since the government provides fringe benefits U.S. firms must underwrite in America.
- Energy costs are substantially cheaper. On average fuel costs one fourth as much in Montreal as it does in New York City.
- Clean water is plentiful and inexpensive.
- The labor force is among the most highly skilled in the world.
- Educational institutions are world-class, with burgeoning research and development institutes geared toward business growing up. Education costs are also much lower than in the States.
- Transportation and communications are state of the art.
- There is a vast capital pool, including financial inducements like cheap loans offered by both the federal and provincial governments to investors.
- There is duty-free access for most goods entering the U.S. market.
- The quality of life is one of the finest in the world, offering inducements to Americans and their families that they would not have in many other countries.

Canada's 10 provinces are quite distinct as economic entities, each with its own special allure to the investor. Alberta, for instance, is an example of a western province whose natural resource wealth (oil, gas, coal, timber and rich soil) is being plowed into the development of a diversified economy. Naturally, it is evolving into petrochemicals and other chemistry. Biotechnology, drawing from its strong agricultural sector, is progressing. Geological sciences are advancing as a result of decades of experience in mining. Alberta's Heritage Trust, a multibillion-dollar fund deriving from sales of nonrenewable energy, is being used to create research and development centers that will attract high tech firms.

Furthermore, Albertans have an attitude that looks south to the United States more than east to other parts of Canada, says Hugh Planche, minister of economic development. "We feel more comfortable trading north to south. We're outsiders trading west to east," he says. Minister of Federal and Intergovernmental Affairs James Horsman says Albertans favor far greater business ties with Americans just to the south of their border than eastern Canadians thousands of miles away.

"It is in the interests of the United States and Canada to combine our economic strength to ensure that North America has a fair share of the world market," says Horsman. Alberta is making it as easy as possible for its southern neighbors to participate in the province's economic goals.

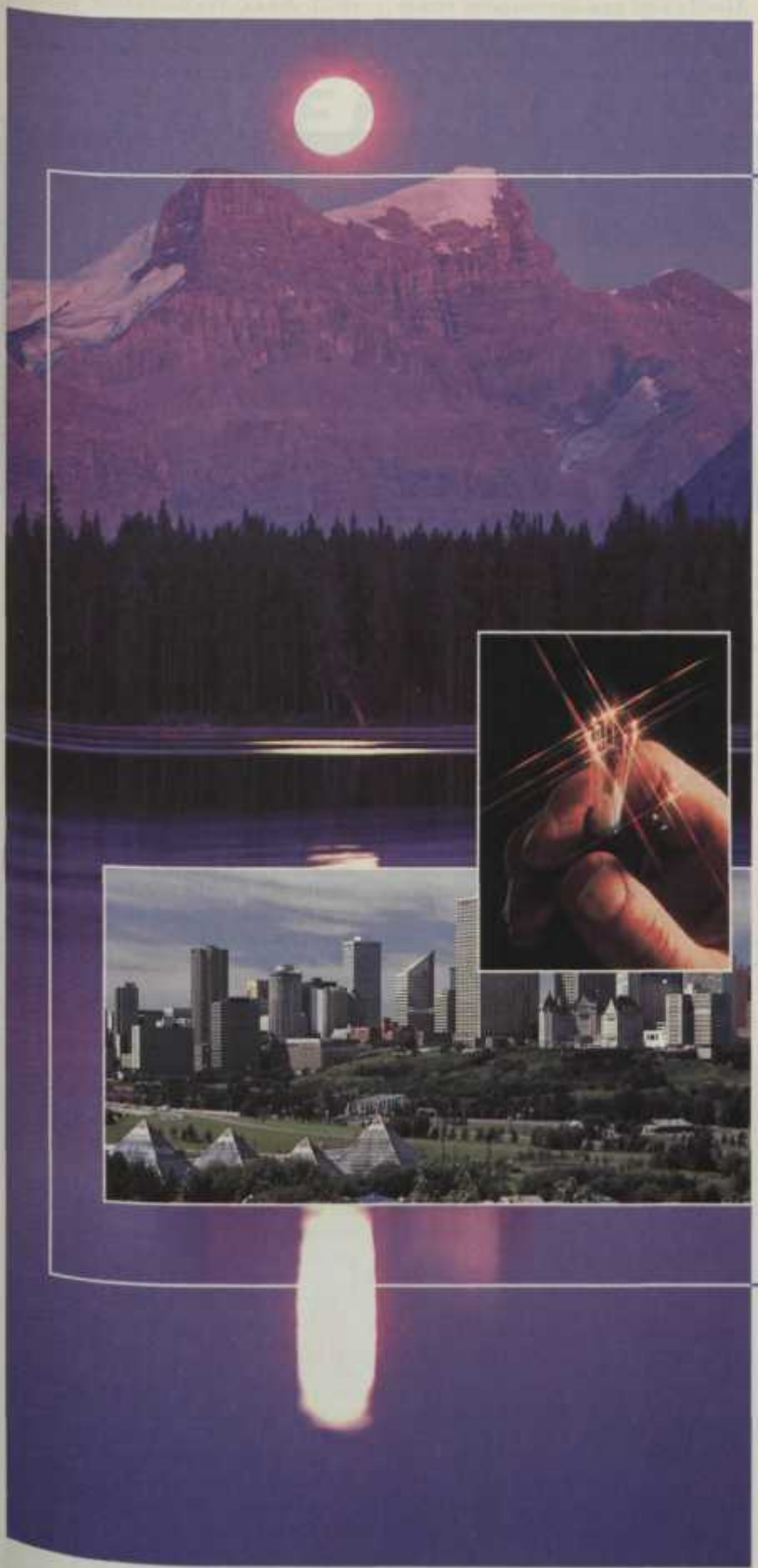
Planche says medical and pharmaceutical industries are fast developing first-class products in Alberta, and, with the backing of Heritage Trust-funded research institutions, they have the ability to really take off. "There are a hundred world-class scientists here with teams," he says. "Together, they are reaching a critical mass in many fields that could be commercialized."

Canadians encourage American inves-

Montreal, along with much of Quebec, has become one of North America's biggest tourist spots. Canada offers a blend of French and Anglo-Canadian culture, and tourism is its second biggest industry. Many love wandering Montreal's romantic old streets and eating in its gourmet restaurants.



PHOTO: PIERRE ST. JACQUES—TOURISM CANADA



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C A N A D A

A Giant Awakens

Alberta's oil and agricultural riches are helping fuel diversified growth into high tech and advanced medical, biological and geological fields. Also, in St. Johns, Newfoundland, tourism is becoming a big dollar draw, even as the Atlantic provinces expand oil and marine industries offshore.



PHOTO: SSC PHOTOCENTRE—GEORGE HUNTER



PHOTO: BOB ANDERSON—TOURISM CANADA

tors to look at their provinces as an alternative to locating in the Midwest or Northeast. Hugh O'Neil, Ontario's minister of industry, trade and technology, says goods produced in his province can be delivered within a day or two to one of the most heavily populated markets in the world. Federal government statistics show that one day's trucking from Toronto reaches an incredible 103 million people in Canada and the United States.

O'Neil is particularly active in encouraging small business start-ups in Ontario. He has even installed a hot line to ensure that entrepreneurs get the advice they need. "Small businesses are the ones creating most jobs and wealth," O'Neil says.

Burton Hildebrand, O'Neil's industrial investment expert, says Ontario has become an attractive site for West Coast firms that want to branch out and produce closer to the Eastern market. "The costs in Ontario are simply cheaper than in the Northeastern United States," says Hildebrand. Ontario is also beginning to attract some Southern U.S. firms for the same reason. Midwest and Northeast firms have long had close relationships with neighbors just across the Ontario border. The province has trade promotion offices in Atlanta and Dallas in addition to ones in Los Angeles, Chicago, Boston and New York.

Ontario has, in fact, one of the most sophisticated high technology and international economies in the world. Its two-way trade with the United States surpassed $100 billion last year. It is responsible for half of all Canada's exports. Ontarian business people are among the most international in the world. On a per capita basis, Ontario exports three times more goods than Japan. Ontarian traders are quite able to help incoming investors reach foreign markets.

Newfoundland is a province that offers distinct advantages to investors for many reasons. Its unemployment rate is above 20 percent. It is a natural setting for marine industries and also happens to be one of the most hauntingly beautiful regions in North America—as many tourists have discovered.

Hugh Barrett, minister of development and tourism for Newfoundland and Labrador, says, "We have a lot of untapped mineral resources, new finds with spinoff advantages for people who want to seek opportunities. We're particularly excited about our offshore petroleum growth." Barrett also encourages Americans interested in investing in tourism services to consider Newfoundland. The Vikings first landed at Newfoundland 1,000 years ago. That makes it the oldest tourism region in the Western Hemisphere, jokes Barrett.

Regional Industrial Expansion Minister Sinclair Stevens says Canada offers vast and varied opportunies to foreign business.



PHOTO: GOVERNMENT OF CANADA

Quebec is a microcosm, albeit a rather large one, of Canada as a whole. It contains vast forest and ocean and energy resources not yet inventoried. Its work force is superbly educated and diversified, able to perform in any economic sector. Also, there is a renewed free enterprise spirit alive in the province with a fresh emphasis on business and technological training in its education systems.

Like Ontario, Quebec is within easy reach of a huge American market. Pierre MacDonald, minister of external affairs, says American investors will find at the end of the red carpet set out for them a whole range of inducements to do business with Quebec.

MacDonald observes, however, that the free trade issue between Canada and the United States will determine to a great extent whether Americans and Canadians can prosper together more abundantly in the future. Washington and Ottawa are discussing now a Mulroney proposal—one warmly embraced by President Reagan—that would lead toward dissipating the last remnants of protectionism between the world's two closest trading partners.

As are most Canadians, MacDonald is sensitive to the relative difference in size. "We have to be careful that you, the big elephant, don't roll over in bed on us, the mouse," he says. But he says that opportunities for Canadian development would occur as a result of freer trade with the United States. The time has come, MacDonald says, to call in the entrepreneurs and the engineers to show how free trade could help Canada and the United States.

Ontario's O'Neil says "cautious" should be the watchword in approaching the is-

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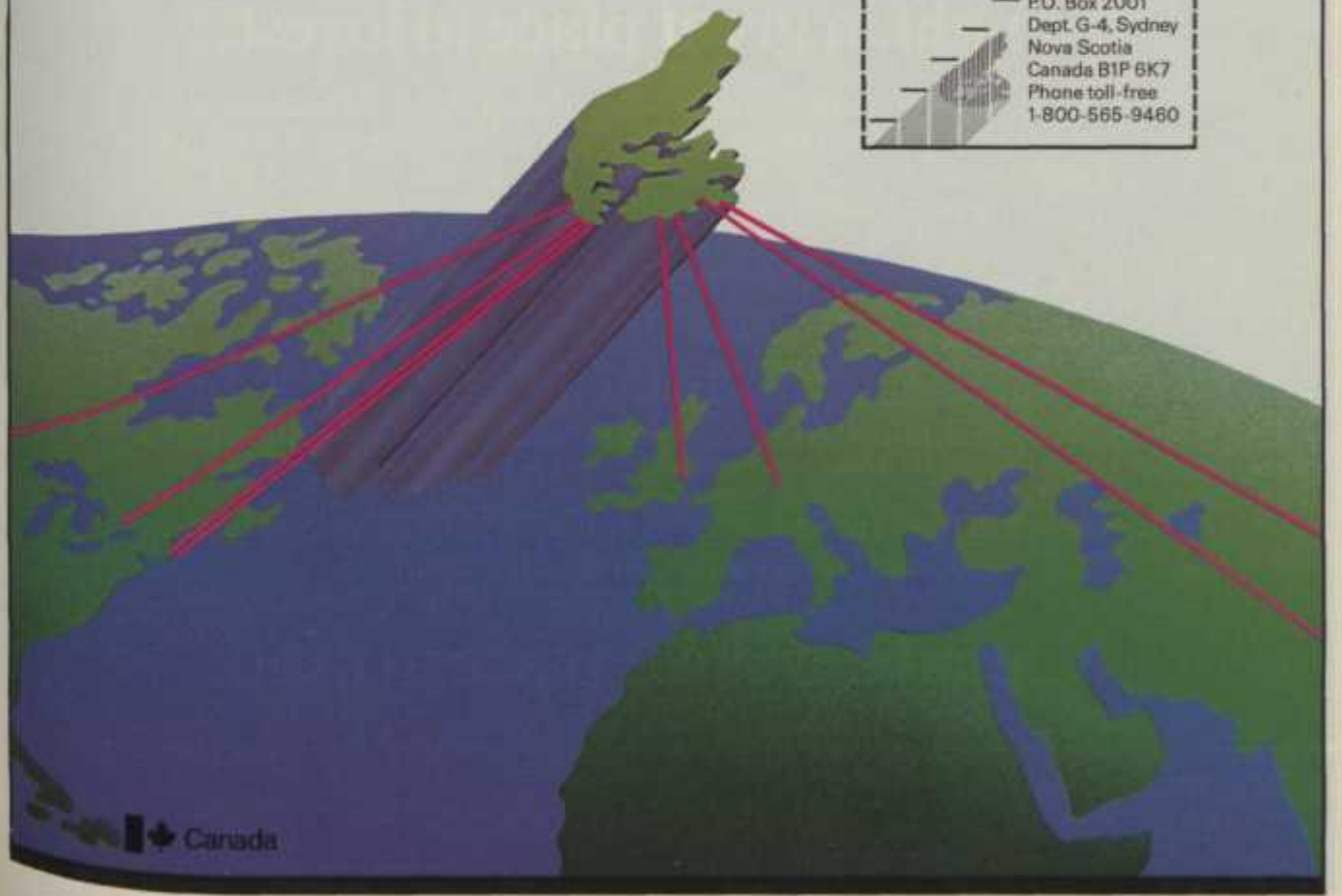
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C A N A D A

A Giant Awakens

Canada has the world's largest and perhaps most dramatic wilderness areas, stretching from the Great Lakes thousands of miles up to the Arctic. Innumerable lakes, mountains and vast prairies challenge sportsmen and nature lovers. Many parks are very near metropolitan areas.

sue. O'Neil observes that fears of American protectionist reactions to the States' $150 billion world trade deficit are prompting Canadians to seek renewed trade talks. But he points out that many industries on both sides of the border would go through painful readjustment processes if their protection suddenly disappeared. O'Neil also fears that many American firms with subsidiaries in Canada would close up shop and leave hundreds of thousands of Canadians unemployed.

Stevens, speaking for the Mulroney government at the federal level, acknowledged that the particular and sometimes contending interests of the various provinces would have to be taken into consideration as the national government negotiates with Washington.

Says Stevens: "Canada and the United States are now close to free trade. There is more open trading between the United States and Canada than among members of the Common Market."

Many Canadian business and government leaders feel Canada must expand



PHOTO: ALLEN HARVEY—TOURISM CANADA

exports—particularly to the United States—in order to assure a continually improving standard of living.

Says Frank Petrie, president of the Canadian Export Association:

"The United States is overwhelmingly our most important market. Our growth in that market last year exceeded the total of our exports to Europe and Japan. We must do all we can to secure and enhance this important trade."

Canadians have charted bold new economic goals for themselves, and they are inviting American business people to join hands with them as North Americans in innovative forms of commerce whose outcome will likely bring greater prosperity to the entire continent. ■

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Ready To Sharpen The Competitive Edge

Reporting on the U.S. Chamber's 74th year, the organization's top three leaders combine optimism with a challenge to members. Chairman Frank L. Morsani (center) is flanked by Vice Chairman Edward Donley (left) and President Richard L. Lesher.



PHOTO: MURRAY ROSKOWITZ

Having achieved three straight years of economic growth, low inflation, declining interest rates and massive job creation, the United States is again a land of hope and opportunity.

That assessment is at the heart of the annual message to U.S. Chamber of Commerce members from the top three leaders of the world's largest business federation. But new problems for Americans lie ahead, warn Chairman Frank L. Morsani, Vice Chairman Edward Donley and President Richard L. Lesher. To signal the Chamber's willingness to meet these problems, they have issued this call: "Let's Sharpen America's Competitive Edge."

The key challenges in the year ahead will be (1) reducing government spending and the federal deficit while avoiding major tax increases, (2) improving the world competitiveness of American business, (3) getting rid of regulations that impede freedom to manage, (4) resolving the liability crisis through sound civil justice reform and (5) electing representatives next November who believe in less government and who support pro-growth policies.

There was no major tax increase last year, and that was a victory. But the House took the idea of tax reform—long advocated by the Chamber—and turned it into an antibusiness, antigrowth measure. The harmful impact of the House bill was documented by Chamber econometric analysis.

The Chamber's economic studies also helped fortify a coalition of 350 organizations that successfully supported a comprehensive deficit reduction package in the Senate.

Finally, to the surprise of many in Congress itself, the Gramm-Rudman-Hollings deficit-reduction legislation was enacted with the support of the Chamber. The measure is designed to produce a balanced budget by 1991.

"Gramm-Rudman-Hollings may be a terrible way to run a government, but if you look at the alternatives, they are all much worse," said Chairman Morsani,

Ready To Sharpen The Competitive Edge

Ronald Reagan asks delegates at the Chamber's 1985 annual meeting for their help in the fight to reduce federal budget deficits. Applauding him are Vice President George Bush and the Chamber chairman at that time, Van P. Smith.



PHOTO: ROBERT BURGESS

paraphrasing Winston Churchill's remarks about democracy.

President Lesher said the Chamber continues trying to teach policymakers that "the only legislative goal of public economic policy is to cause growth." He added: "You don't have to have recessions. Recessions are a terrible waste of our resources. The key is continued economic growth.

"We have said for a long time that the formula is to reduce federal spending, reduce federal regulation and reduce taxation.

"I'm glad to see that the message has finally come of age. You don't hear the same old arguments for re-regulation and for new programs."

Declining oil prices, lower interest rates and a fall in the dollar's value on world markets should give impetus to economic expansion and reduction of the U.S. trade deficit, Lesher said.

Chamber legislative activities in the past year were not confined to fiscal matters. Members' views were presented at 75 congressional hearings and in 160 legislative letters. Chamber staff members made more than 2,400 personal visits to senators, representatives and their staffs.

The Chamber booklet "Congressional Issues 1986" describes 117 major areas of business-related legislation likely to receive congressional attention this year.

Issues in the book are updated regularly for members in articles in two newsletters, *Congressional Action* and *Special Reports*. They help sharpen legislative awareness and nourish the Chamber's nationwide member grass-roots network.

Labor law issues were an active area for the Chamber last year, highlighted by the November defeat of restrictive "plant closing" legislation in the House. Grass-roots membership opposition was given much of the credit for narrowly defeating this AFL-CIO priority measure.

Other labor-area victories were reform of Walsh-Healey Act overtime requirements for federal contractors and improvement of record-keeping provisions in the Senate-passed immigration bill. The Chamber helped its airline and railroad members in union decertification cases before the National Mediation Board and pursued other reforms under the Railway Labor Act. It was actively involved in key appointments at the National Labor Relations Board; that body now has returned to a balanced policy.

Legislative wins also advanced small firms' participation in spare-parts procurement, blocked widening the right to sue in federal court under the Superfund law, reformed the longshore federal compensation program and halted efforts to tax many employee benefits.

Businesses were saved time and money by Chamber-backed revisions in Internal Revenue Service recordkeeping requirements on use of company vehicles.

Many of these legislative and regulatory victories were achieved with the help of 87 issue strategy groups in which the Chamber plays a leading role. These business coalitions coordinate the resources and maximize the clout of business organizations.

They also help defend the business community against political divide-and-conquer tactics.

The Chamber's Congressional Action System, a countrywide network of thousands of businesses, chambers of commerce and trade associations, moved quickly and often last year to bring membership grass-roots lobbying pressure on Congress.

Meanwhile, the Office of Corporate Relations held one-on-one meetings with corporate members to get their input on policy and further their involvement in Chamber activities.

The Chamber's Briefing Center held sessions for more than 330 associations, chambers, corporations and other groups to improve their understanding of current legislation and of federation resources and activities.

Many vehicles are used in the Chamber's communications with its members. They include NATION'S BUSINESS, America's largest-circulation and oldest business magazine, which was redesigned in the past year, and the *Business Advocate*, an issue-oriented advocacy publication.

Chamber broadcast activities include "It's Your Business," the popular, award-winning syndicated TV show, and "Nation's Business Today," a general-audience daily news show, which last year joined the ESPN network, the nation's largest cable system. Together these broadcasts reach nearly 90 percent of the American public. The broadcast division also produces teleconferences and "seminars by satellite" for business and professional audiences around the country.

Personal communication is available to members by telephone with any of the nearly 100 issue experts at the Chamber. Their names and phone numbers appear in a list of staff specialists that is supplied to members.

The Chamber's Small Business Center calls on these specialists on issues of particular importance to smaller employers. Last year the center helped set up a Clearinghouse on the Liability Crisis (see page 83RR), helped prepare federation members for the forthcoming White House Conference on Small Business (see page 82RR), fought to streamline the Small Business Administration and keep it effective, and worked for pro-growth policies that help entrepreneurs.

With the liability crisis mounting, the Chamber launched a massive campaign to seek solutions and stir action. As part of the effort, the Chamber's field staff put on regional meetings in six cities. One of the largest, shown here, was in Los Angeles. The drive continues with activity in Washington and in 50 states, where it is directed at getting legislatures to enact civil justice reforms.





PHOTOS: JEROME NUCLENDON

This year's theme of sharpening America's competitive edge has special meaning for the Chamber's International Division, one of whose missions is to work for an equitable and open trading system based on mutual benefit.

Increased market access abroad for American business is needed, the Chamber asserts. It works with Congress and the administration to develop national policies that stimulate worldwide growth, increase foreign demand for U.S. products and services, strengthen other currencies relative to the dollar and help make U.S. exports more competitive.

The Chamber was the first business organization to urge publicly that President Reagan use his negotiating authority aggressively to combat unfair trade practices.

And the Chamber continued its unending fight against protectionist sentiment. Chairman Morsani testified before the House Banking Committee: "The best trade policy for promoting growth and jobs is one that recognizes our growing interdependence as an opportunity. Such a policy will favor expansion and liberalization of the trading system, not restriction."

Four new American Chambers of Com-

Chamber Affiliates: An Active Year For Business Activists

Only days after February's dramatic change of government in the Philippines, a Chamber affiliate, the Center for International Private Enterprise, made a grant to the Philippine Chamber of Commerce and Industry to assist its work in strengthening free enterprise in that troubled country.

CIPE is the business representative in President Reagan's National Endowment for Democracy that operates under congressional mandate.

Last year CIPE sponsored 22 programs of democratic development and business activism in 13 countries from Argentina to Zimbabwe.

Another of the Chamber's activist affiliates, the National Chamber Litigation Center, participated in 28 court cases to protect the rights of American businesses, bringing its case total to 170 since 1977. During the year it helped win five major Supreme Court victories.

In one of these, the Court ruled that unions cannot restrict members from resigning membership and returning to work during a strike. In another, it ruled that a company that is bargaining to remain competitive with nonunion rivals does not have to reveal its financial records to the union.

In another the court held that the Environmental Protection Agency can grant variances from national water pollution standards to "fundamentally different" industrial dischargers.

In another it ruled that employees cannot file suit alleging state law claims to avoid bargaining agreement procedures for resolving contract disputes.

The National Chamber Foundation, a public policy research group, completed studies of effective corporate tax rates; new trends in health care cost management; the Social Security system; the commercialization of space; unemployment compensation overpayments; the effect of a renegotiation board on procurement efficiency; and the effects of the accelerated cost recovery system and the investment tax credit on business fixed investment.

In addition, the foundation launched projects on protection of intellectual property rights, economic rights protected by the Constitution and ways developing nations can encourage economic growth through greater reliance on free enterprise. Each foundation project incorporates in the research process the expertise of a task force of business leaders. All projects contain recommendations for both public and private initiatives.

The Chamber's Center for Leadership Development marked 65 years of continuous operation with record participation in its educational programs for business people. It operates management training institutes at seven U.S. universities and two universities abroad and conducts Washington seminars on the federal government process. The center now operates under auspices of the National Chamber Foundation.

Citizen's Choice, a Chamber-affiliated taxpayers' lobby, launched a petition drive for federal deficit reduction, promoted an eight-point deficit reduction program as a basis for the 1986 congressional budget resolution and worked for enactment and enforcement of the Gramm-Rudman-Hollings deficit control measure. Citizen's Choice also drafted the second phase of a "taxpayer's bill of rights" and gained its introduction in Congress.

Ready To Sharpen The Competitive Edge







PHOTOS: T. MICHAEL KEZA

Distinguished speakers at Chamber functions in Washington included Rep. Lynn Martin (R-Ill.) of the House Budget and Armed Services Committees (left), Attorney General Edwin L. Meese and Indian Prime Minister Rajiv Gandhi.

merce Abroad were chartered, raising the total to 57 in 54 countries. They represent more than 60,000 U.S. and foreign businesses. The Chamber conducted a third annual dialogue on U.S.-Japanese trade problems, an international videoconference featuring Japanese business leaders and American government and congressional leaders. Foreign trade missions and numerous world leaders consulted with Chamber leaders. Among distinguished visitors to the Chamber were Indian Prime Minister Rajiv Gandhi, Brazilian President Jose Sarney, Dutch Prime Minister Ruud Lubbers and Ecuadorian President Leon Febres-Cordero.

The Chamber's "Spirit of Enterprise" Campaign, its first capital fundraising effort since 1912, continued to gather momentum toward its $35 million goal. It received commitments from a record number of corporations, including valuable in-kind gifts of equipment. The campaign's objectives are to enable the Chamber to update its operations, expand its communications, increase the scope of its programs and modernize its headquarters building.

Through the campaign's Named Gift Program, the Chamber will renovate more than 120,000 square feet in its Washington building in the names of individual or corporate donors.

In addition, Chamber staff began working with a major accounting firm to prepare plans for modernizing the Chamber's information and communications system. This will ensure that the Chamber's member grass-roots lobbying network remains the most effective and sophisticated in the country.

A highly effective political action committee, the National Chamber Alliance for Politics, will be active again this year in selected races for seats in both houses of Congress.

Chamber endorsements are given regardless of party affiliation to candidates who can be expected to support business objectives.

Since its inception in 1978, the alliance has seen victories for 69 percent of the candidates it has endorsed.

Congress must make decisions that support the nation's continued economic growth. Chamber economists predict that the sharp decline in oil prices will contribute to an economic boom this year and next, if the nation pursues a sound monetary policy and avoids a major tax increase.

But progress must be made on reducing budget and trade deficits, and tax reform must promote growth, not choke it off.

"If we as a nation do this," said the

A Leading Role In The White House Small Business Conference

When delegates from 50 states assemble in Washington during August for the White House Conference on Small Business, the event will climax more than a year of preparation in which the U.S. Chamber played a leading role.

The conference was authorized two years ago by act of Congress, but the Chamber was a prime mover in getting it scheduled this year. The Chamber is part of a group of advisers to the conference director.

Chamber field staff and the staffs of state and local chambers and trade associations helped design, publicize and organize support for preliminary meetings being held in every state.

The last White House Conference, held in 1980, has been called the most significant small business event of modern times. More than two thirds of its 60 recommendations have been enacted and others are still being debated.

This year, as in 1980, the Chamber provided much information about the conference to its members, and its staff has furnished leadership and resources to encourage members to participate in the preliminary meetings. These one-day gatherings are run by White House special staff. Participants have been electing delegates to the national conference; a large number of delegates will be members of the Chamber federation.

Participants in the preliminary meetings have also drafted proposals for the August conference—on issues like taxes, government procurement, labor law and liability insurance.

Tens of thousands of small business people—principals in companies with fewer than 500 employees—have attended the series of state meetings, which concludes at the end of May. The process is designed to call forth a genuine grass-roots expression of small business concerns.

At the August conference, 1,823 delegates will distill from the thousands of state proposals a set of priorities, pointing the way for public and private actions to deal with the most critical issues facing small business today. Their recommendations, when presented to the President and Congress, will help shape the national agenda for the rest of the 1980s.

Congress comes to the Chamber and the Chamber goes to Congress. Left: In Chamber TV studios for "It's Your Business" are (from left) President Lesher, Texas Sen. Phil Gramm, moderator Meryl Comer, New Jersey Sen. Bill Bradley and Texas Rep. Martin Frost. Right: Chairman Morsani speaks to House Budget Committee Chairman William Gray, after testifying.





three Chamber leaders in their joint message, "and continue the low-tax, less-regulation, low-inflation policies of the past few years, we can and will build on our successes.

"If we continue these policies we will assure further economic expansion, sustained growth, increased employment and higher standards of living."

They add that the deficit-reduction process now being implemented would be greatly strengthened by passage of two other pieces of legislation—a tax limitation/balanced budget constitutional amendment that would permanently limit Congress' ability to tax and spend, and a line-item veto giving the President authority to delete special-interest subsidies hidden in massive appropriations bills.

As the nation continues to adjust to the constantly changing global economy, the Chamber's goals of a high-growth agenda "cannot be achieved without your commitment and involvement," said the message to members.

The message concluded:

"Working together, we can succeed. Therefore, we urge your enthusiastic and active support. Let's sharpen America's competitive edge." NB

A Massive Membership Campaign To Solve The Liability Crisis

In recent months the Chamber federation has responded to the national liability crisis by mounting a massive membership grass-roots campaign, directed at Congress but even more at state legislatures, to seek reforms in the civil justice system.

The crisis is especially acute in the United States. Its devastating symptom is the sudden unaffordability or unavailability of liability insurance. This development has struck at large businesses and small, at professionals, merchants and manufacturers. It has needlessly disrupted commerce, arbitrarily ended professional careers and cost the public dearly through withdrawal of goods and services.

In 1985, acting on a request of its Council of Small Business, the Chamber board of directors set in motion a program to increase public understanding of the problem.

Early in 1986, the board recommended a broad program of improvements in the tort liability area of the nation's civil justice system. These reforms would accomplish several things:

- Develop uniform standards of liability consistent with the principle that those who are responsible for harm to the person or property of another should, to the extent of that responsibility, offset the harm they have done.
- Reform rules of joint and several liability, contribution and claim reduction.
- Reform rules governing noneconomic loss and punitive damages.
- Provide alternatives to jury determinations of complex medical, scientific and technological issues.
- Develop fair and cost-effective methods to resolve disputes other than through private litigation.
- Reduce transaction costs by regulating contingent legal fees.

The Chamber created a broad-based Civil Justice Action Group to design a national lobbying-communications strategy to reinforce ongoing state reform efforts.

It also helped establish a working group among Washington lobbyists to coordinate federal reform efforts.

Its own Liability Crisis Project operates a clearinghouse to provide up-to-date information and advice for individual businesses that call in. It also publishes a newsletter to disseminate to members information on Chamber activities, state actions and legislative reforms.

Dozens of national, state and local business and professional coalitions buttress these efforts.

The Chamber's field staff recently brought business people together in regional meetings to learn as much as possible about the crisis. Meetings were held in Atlanta, New York, Los Angeles, Chicago, Dallas and Denver. From there participants went back to their communities to spread the word, sound the alarm and take action.

Chamber representatives testified repeatedly at Congressional hearings investigating the causes of the liability crisis and encouraged the Justice Department to develop recommendations for needed civil justice changes.

Chamber commitment to resolve the liability crisis is firm. The federation is convinced that rationality must be restored to the tort and product liability system so that liability insurance will again become available and affordable. To that end the Chamber has called on all its members to support its civil justice reform program.

Attacking The Bloated Budget

By Andrew J. Sherman

New Hampshire businessman Bill Fletcher (he's shown in Washington) says the White House Conference must look at budget issues.



PHOTO: T. MICHAEL KEZA

Roy Smith, who owns H.P. Smith Motors, Omaha, says the growing federal deficit threatens his family's and business' future. He thinks the government could take a clue from the borrowing habits of his father, who founded the business, and not borrow beyond its means.



PHOTO: JIM KRANTZ

Homer P. Smith had the stuff of which the American Dream is made.

Smith had to leave school after the ninth grade to help support his family during the Depression. His first job was on an assembly line at a Ford plant in Omaha. But deep inside, he knew he would be better at selling cars than building them. So when an opportunity arose in 1945 to buy a dealership, he borrowed $15,000 and took a chance.

Having survived the Depression, says his son, Roy, Homer did not like to borrow. And when he did have to, he never borrowed beyond his means.

That lesson has paid off. Four decades later, H.P. Smith Motors grosses $70 million annually from five dealerships employing 250 people. Roy, who took over the business in 1963, thinks the federal government could have learned a few things about borrowing from his father.

Roy Smith is chairman of the Nebraska delegation to the White House Conference on Small Business, to be held in Washington this August. At the top of Smith's concerns is the federal budget deficit.

"Budget, budget and budget will be the No. 1, 2 and 3 priorities for the White House Conference this year," he says. "Frankly, this growing deficit has me worried about the financial future of my family and business."

The deficit worry is based, according to Smith and other conferees, on this scenario: Heavy government borrowing to finance the deficit would mean intensified competition for loans, and borrowing costs for businesses would be pushed up. Interest rates might be driven back to 1982 levels. And the economic recovery might not survive that.

At 45 state conferences held thus far as preliminaries to the August conference, small business leaders have demanded that federal spending be curtailed to reduce the red ink.

"Our message at the White House Conference will be to keep the strong economy intact," says Bill Nourse, owner of Brookemeade Hardware & Supply in Nashville. Nourse was a delegate to a previous White House Conference on Small Business, held in 1980, and is chairman of this year's Tennessee delegation. "The budget issues must be dealt with swiftly and rationally, or growth may be impeded," he says.

Preservation of economic growth is a key concern of conferees. "I want to expand my business 50 to 60 percent this year," says Nourse. "I just negotiated our first line of credit since opening the business in 1975. The strong economy has enabled me to increase my staff from eight to 10 this year, and I expect sales to exceed $1.5 million."

But, says Nourse, an economic collapse brought on by excessive deficit spending would put a halt to that. "The economy will remain strong only if businesses see that the federal government is serious about fiscal responsibility," he says.

A major congressional step toward responsibility has been the Gramm-Rudman-Hollings deficit reduction law, which provides automatic, across-the-board cuts in federal spending programs to reach a balanced budget by 1991.

Andrew J. Sherman is a Washington free-lance writer.

"Each time the deficit grows, we are engaging in economic child abuse." That sums up the feelings of many a delegate to the White House Conference on Small Business.

Says Nourse: "The benefit of Gramm-Rudman is the acceptance by all members of Congress that budget issues must be dealt with."

There are disagreements, however, with the broad approach of Gramm-Rudman, and particularly with putting certain areas—defense spending and Social Security—off limits for cuts.

Bill Fletcher, chairman of the New Hampshire delegation and president of Termiflex Corporation, a Merrimack, N.H., manufacturer of hand-held computer terminals for microprocessors, says: "The delegates to this year's White House Conference are going to have to take a hard look at budget issues, especially those excluded programs such as Social Security. No part of the federal government should be exempt from close scrutiny."

He adds: "When the revenue stream isn't there to meet my expenses, I don't exclude 70 percent of them as off limits, nor do I just cut 10 percent across the board. That's not a rational solution."

A rational solution for the government, says Fletcher, is to follow the business approach of analyzing each expense separately. "It's simply abhorrent to watch the federal government operate in a manner which my own business couldn't survive," he says.

Nourse, however, says some programs should be off limits to cuts, particularly those that benefit small business. "Wholesale cutting of Small Business Administration programs, industrial revenue bonds and other forms of federal financial assistance to small business must be preserved," he says. "These programs are job-creating machines. Prudent spending, not program chopping, should be the rule of thumb."

Spending reductions, rather than tax increases, are the method the administration favors to bring the budget back into line.

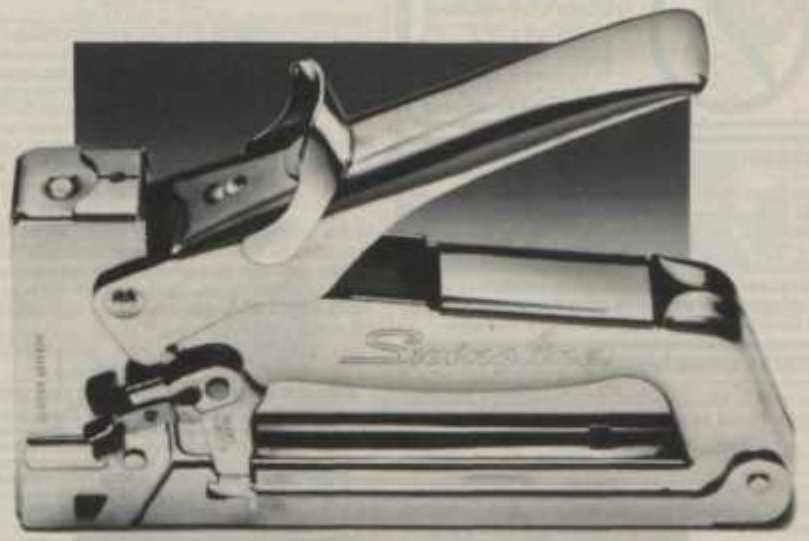
If Social Security and defense spending are immune to reduction, where should the cuts be made? Several state conferences have suggested implementing more findings of the President's Private Sector Survey on Cost Control—known as the Grace Commission after its chairman, J. Peter Grace, chairman of W.R. Grace & Company. The commission published numerous reports citing areas where savings could be achieved in federal agencies.

Conferees have also recommended that the small business community have a greater say in federal economic policymaking. The Federal Reserve Board has taken the lead in doing just that. In early 1985, all 12 of the Federal Reserve Banks established small business advisory councils. "These councils have been very effective in establishing a line of communications between local small business leaders and the federal monetary policymakers," observes Sandy Pianalta, assistant vice president of public information and administrator of the council at the Cleveland regional bank. "At council meetings, we educate the business owners on Federal Reserve operations, economic policy and international monetary issues, while we provide a forum to voice their concerns. It's clear that small business people want a greater role."

Small business leaders at the state conferences have made it clear that economic policy decisions reached at 1600 Pennsylvania Avenue affect their day-to-day operations. Says Nourse: "These budget deficits impact us directly, and small business owners need to speak up. That's why the White House Conference is so important."

Roy Smith believes that the federal budget must be addressed today before it becomes an even larger problem tomorrow. Says Smith: "We need to ensure that the entrepreneurs of the future get their chance at the American Dream. Each time the deficit grows, we are engaging in economic child abuse." NB

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Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Federal Amnesty For Taxpayers?

Proposals to pardon federal tax scofflaws are being considered as a means of raising revenues. In the last four years, tax amnesties in 18 states have brought in nearly $800 million. Estimates of the take from a one-time federal tax amnesty range from $2 billion to $20 billion. Proponents say a blanket pardon could forestall a tax hike. Opponents say it would be unfair to honest taxpayers and could undermine compliance by holding out the promise of future pardons. Should a one-time federal tax amnesty be granted?

2. Federal Prosecution Of Labor Violence?

Violence in labor disputes is on the rise, but a 1973 U.S. Supreme Court decision exempts labor unions from federal investigation and prosecution of violence and extortion. Congress is now considering a bill that would overturn the exemption. Opponents say overzealous federal action could stifle unions' exercise of their rights. Proponents argue that union officials should not be shielded from federal criminal statutes. Should Congress amend existing law and allow federal investigation and prosecution of labor violence and extortion?

3. New Unions For Security Guards?

The National Labor Relations Act prohibits unionized security guards from affiliating with unions that represent people other than guards. The International Brotherhood of Teamsters, the nation's largest union, is pressuring Congress to remove that prohibition so that it can get independent guards' unions to merge with it. Opponents say that could adversely affect millions of businesses, creating divided loyalties in strike situations such as when guards are protecting property picketed by members of the same union. Should security guards be allowed to join nonguard unions?

Verdicts On Bulk Mailings, Election Subsidies, AIDS

Here is how readers responded to the questions in the March issue's Where I Stand poll.

	Yes	No	Undecided
Should Congress cut spending for members' bulk mailings?	93%	8%	2%
Should taxpayers' money be used to pay for congressional candidates' political campaigns?	8%	87%	5%
Should employers have the right to screen current or prospective employees for exposure to the AIDS virus?	63%	23%	14%

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It's Your Money

How far up can the bull market go? The experts say it is not near the top yet, but they still urge caution.

By Ray Brady

Let's say it right at the beginning of this column: This has probably been the most nervous bull market in history. From the very start of the upward move in stock prices last fall, veteran stock watchers had trouble believing the market was really picking up steam.

For a while, many professionals simply couldn't get their act together and plunge into the market. They just couldn't believe what the Quotron machines were telling them.

One exception to this trend was a money manager I know who prefers to remain anonymous.

"I may be a simple fellow," he said, "but anytime you see falling prices for the world's two leading commodities—oil and money—then the bull market has to keep going."

So far, he has been right. Make no mistake about it: The drop in interest rates and the fall in world oil prices are the two factors driving this bull market.

Lower interest rates make it easier for consumers to spend money—and consumer spending generates about two thirds of our economic activity. The oil price decline, though it has knocked Texas and other oil producing states into a spin, also gives the economy a boost. Donald Ratajczak, a crack Georgia State University economist, estimates the fall of gasoline prices alone will give an average consumer an extra $150 this year.

Though all that is tempting to the investors, there are still worries about whether this bull market will continue. One Wall Streeter who has done a lot of work on this particular subject is Eric Miller, of the investment firm of Smith Barney, Harris Upham Company. As Miller sees it, this is the "Third Bull Run"—the third massive bull market the United States has had in this century.

The first was, of course, during the Roaring Twenties, when stock prices went as wild as flappers. The second began in 1949, a period when stocks were selling at six times earnings and yielding 6 to 8 percent; bonds, in contrast, were yielding only 2 percent. "In retrospect," says Miller, "it looks like a turkey shoot."

Ray Brady is the business correspondent for CBS News.

Small investors are back in the market in a big way. To some degree, say brokers, their behavior parallels that of small investors in the '20s.



PHOTO: T. MICHAEL KEZA

From 1949 to 1955 the market had only one losing year. In 1949 stocks went up a total of 18.8 percent. In 1954 they rose 52.6 percent.

The important thing for today's investor to remember about all this, says Miller, is that the times were just as tremulous then as they are today.

Among other events during that long bull market, the world witnessed: President Dwight Eisenhower's heart attack (which did, at least for a time, send the market into a tailspin), the Egyptian seizure of the Suez Canal, the Soviet launch of Sputnik and Fidel Castro's takeover in Cuba.

Studying past bull markets and this one, Miller notes at least one common characteristic. "A sea change in attitude," says Miller, "takes place." In this market, the sea change has been the belief that interest rates will remain at the current low level and that we will not see a return of inflation.

That kind of broad change in thinking is making the bull market possible, and bullishness is running across all economic and social lines. I stopped by at the Charles Schwab & Company branch in Manhattan's World Trade Center recently. Lines of small investors—many of them people who had never bought stocks before—were watching the ticker tape. Obviously, the public was in.

"The phone never stops ringing," said Manager John Elder, referring to those small investors. "We're getting triple the number of phone calls we got just a few months ago."

But is that a danger signal, as so many people think? After all, Joseph Kennedy made a fortune by getting out of the market in 1929, when he found out—via a Wall Street bootblack—that so many neophyte investors were getting in.

David Nelson, of Legg Mason Wood Walker, in Baltimore, is one of those who is cautious today. The big buying opportunities came in 1982 and again in mid-1984, he believes. "I don't think," he says, "you have that kind of buying opportunity right now."

However, I have been absolutely amazed at the number of Wall Streeters who keep telling me—but privately, not for the record—that all the people at their particular firm feel the Dow is going to 2,500.

Some on the Street even say—again, privately—3,000.

Maybe so. The optimists could be right, and the Dow could be headed for the sky.

Some analysts are saying that there can be buying opportunities in still-undervalued stocks—such as some of the retailing issues. Others, though, say stay in the big issues—the blue chips—because if the market keeps going up, so will they.

Others say to hold off buying until the market corrects itself, then go in and scoop up shares at lower prices. But correction or no correction, most analysts feel the market will keep rising.

"Don't fight it," says Newton Zinder, of E. F. Hutton. "It is bigger than all of us."

Whether he is right is up to the individual investor to decide. NB

PERSONAL

To Your Health

You can fine-tune your health by listening to fine tunes.

By Vicki A. Moss and Judith A. Webster

Music is not just for entertainment. It can help you relax or improve your creativity and productivity. It can even reduce pain and aid in healing. Music has taken on new significance in this age of "wellness," as people look for nonchemical ways to reduce stress.

Music researcher R. Murray Shafer has demonstrated that many sounds contribute to stress, headache, irritability, poor digestion and lack of concentration. However, properly chosen sounds and music facilitate learning, decrease muscle tension and promote "alpha" brain wave activity, which is associated with feelings of well-being. With the brain in the alpha state, thinking becomes focused, and creativity is enhanced.

Other research suggests that playing slow baroque music softly during a learning activity aids both memory and concentration. Such music is calming. It tends to slow the body processes of pulse and respiration and helps in lowering blood pressure and decreasing the flow of stress hormones.

Paul Chivington, an electrical engineer and consultant from Denver, travels with a cassette player and tapes to help him relax on the road. "I play the 'Canon in D' by Pachelbel or the 'Water Music' by Handel and find I don't need a cocktail or medication to unwind," he says. "The music produces a restful night's sleep, and I wake with energy and enthusiasm for my lectures the next day."

Jeffrey Scheffel, management accountant at the Mayo Clinic in Rochester, Minn., takes time after lunch for music. "I close my door, turn off my phone and relax for about half an hour to the 'Pastoral Symphony' by Beethoven or Daniel Kobialka's 'Fragrances of a Dream.' This helps me approach the remainder of my day with renewed freshness and energy."

Composer and author Steven Halpern says the body is literally a "human instrument." It can be tuned up or detuned by sounds we rarely give a second thought to. His research shows that loud sound tends to be stressful.

Vicki A. Moss and Judith A. Webster are both registered nurses and wellness consultants in Green Bay, Wis.

The serenity and calm of great music can have direct physical effects on listeners—for instance, by reducing the flow of stress hormones.



PHOTO: PETER GARFIELD—PSUD

Even soft sounds—the hum of a refrigerator or the buzz of fluorescent lights—can be annoying.

Halpern is part of a school of contemporary music called "New Age" music, designed to promote health and relaxation and aid in stress management. Two Halpern compositions, "Spectrum Suite" and "Study Suite," are favorites of Robert Nunley, a professor of geography who also teaches computer science at the University of Kansas. He uses music to help business people and professionals overcome the intimidation they feel when first working with microcomputers.

Most of the music mentioned here can be purchased in record stores. However, the New Age music may need to be obtained from specialty outlets, such as Narada, 1845 N. Farwell Avenue, Suite 205, Milwaukee, Wis. 53202 (800-8-NARADA), or Halpern Sounds, 1775 Old County Road, #9, Belmont Calif. 94002 (415-592-4900).

There are many ways to incorporate music into your day. Listen to tapes as you drive to work to ease the tension caused by congested traffic. If you take the train or subway, use a portable player with headset and play music to get your creative juices going.

Your office can be turned into an environment filled with harmonizing sound. Since high-pitched sounds produce tension, change the bell on your telephone from the conventional jangle to one of the new, low-pitched melodious sounds. Install a stereo system and play soft background music to mask the hums and whirs of a busy workplace. Bring the outdoors into your office with tapes of music interspersed with sounds of waves lapping against the seashore or birds and insects chirping, as in Ron Dexter's "Golden Voyage."

Develop a "sound library" of selections appropriate to your changing moods and needs. But remember that what works for someone else may not work for you.

According to Dr. John Diamond, author of *Your Body Doesn't Lie*, much of today's rock music depletes energy and weakens muscles. The music often played very loudly in health clubs may not be conducive to a healthy workout.

Music can also promote healing, apparently because the body produces its own morphine-like substances, endorphins, when music stimulates the right brain. Noreen McCarron, a nurse anesthetist from Port Townsend, Wash., has been giving patients music to listen to before and after surgery and has found that many report a more relaxed and comfortable surgical experience as well as less pain afterward.

You can use relaxation music to relieve the discomfort of a tension headache or to soothe tired and stressed muscles at the end of the day.

Music controls mood, communicates feelings and expands the consciousness. Choose it as carefully as you would a healthy diet. Experiment with the sounds in your life, as well as the silence. Listen to the spaces between the sounds. Be creative and open to new musical choices as you finely tune your "human instrument." NB

COMMENTARY

Congressional Alert

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Budget/ Appropriations	The administration's proposed fiscal '87 budget includes $38 billion in spending cuts, without a tax increase, in order to comply with the Gramm-Rudman-Hollings deficit reduction legislation. Failure to reduce deficits could raise interest rates. Raising taxes could impede economic growth.	Members of the House and Senate: Reduce the level of federal spending without raising taxes, in order to meet the mandated budget deficit targets adopted by Congress.
Tax Reform/ Simplification	Senate Finance Committee Chairman Robert Packwood (R-Ore.) has proposed a bill that would set top corporate and individual income tax rates at 35 percent and contain more generous depreciation rules than those in a House tax reform bill. Both bills would repeal the investment tax credit. The Packwood bill also would repeal the business deduction for excise taxes.	Members of the Senate: Until Congress has reached a firm agreement on the fiscal '87 budget that is consistent with Gramm-Rudman-Hollings targets, tax reform should be set aside.
Superfund	Businesses would be affected by taxes used to finance cleanup of abandoned toxic waste sites under the Superfund reauthorization bill. The original $1.6 billion five-year authorization, which expired Sept. 30, 1985, was funded mostly by a tax on crude oil and chemical feedstocks, with a small proportion coming from general revenues.	Conferees: Support Superfund reauthorization legislation that balances economic and environmental needs. Support financing at reasonable levels, funded by general revenues, for the amount needed over the previous $1.6 billion level. Oppose any new or increased taxes on business alone for Superfund.
Labor Violence	No industry is immune from labor violence. The Hobbs Anti-Extortion Act of 1946 prohibited violence and extortion affecting interstate commerce. But in 1973 the Supreme Court ruled in the *Enmons* case that union violence or extortion is exempt from federal criminal law if it furthers legitimate labor objectives. Legislation has been introduced that would restore the Hobbs Act as it applies to union violence.	Members of the House: Support legislation that would reverse the *Enmons* decision. Labor violence must be dealt with in the same manner as other criminal offenses. Support equal justice for all, regardless of who commits the crime.
Product Liability	A principal reason for the liability crisis that businesses face is the judicial expansion of tort concepts, under which businesses have been held liable for damages even when they are blameless. As a consequence, liability insurance has become unaffordable or unavailable to many businesses.	Members of the House and Senate: Enact legislation establishing uniform procedures for state and federal courts that would assure more certainty in product liability cases, thus decreasing business costs.
Comparable Worth	A House-approved comparable worth study of the federal work force could be the first step in subjecting business to a pay system based on arbitrary evaluation of jobs' "worth." Courts, bureaucrats or job evaluators would determine the intrinsic worth of different occupations and set wages accordingly.	Members of the Senate: Oppose this step toward implementation of a comparable worth pay system that would disrupt the labor market and increase the cost of doing business. The judgment of outside evaluators must not be substituted for the marketplace.

Friendly Takeovers

Facing ruin, Murray Harpole turned his fortune around by purchasing and rehabilitating foundering firms.

By Del Marth

Twenty years ago this summer, five friends, all employees of Litton Industries, in the Minneapolis/St. Paul area, dreamed of soaring into the corporate world by making high altitude balloons for Uncle Sam's atmospheric research. They named their newly formed business Pentair, loosely translated to mean five (pent) on the way up with inflatables.

Pentair, Inc., eventually went up, but not in balloons. And not with all five former Litton employees aboard. By June, 1968, before Pentair was two years old, the corporate dream had become a nightmare. The company had no product to speak of, it was nearly out of money, one cofounder had died and three others had abandoned the venture.

Left was Murray J. Harpole, 47 at the time, an engineer who knew electromechanical design but little about debt-to-equity ratios.

But then all five cofounders—Harpole, two other engineers, a shop foreman and a salesman—had started with few business smarts. They had formed Pentair because Litton, which had government contracts to make atmospheric balloons, was not keen on the project. The five decided, with Litton's permission, to pick up the contracts.

"We started with $25,000, as a partnership," recalls Harpole. But no sooner had the young company leased a building than President Johnson announced a cutback in balloon research.

"We could see we were not going to develop a business as rapidly as we had thought, and we were soon headed for cash flow problems," Harpole says. "We decided to incorporate and sell shares to get enough money to survive."

At $1 a share, Pentair in late 1966 raised $200,000, most of it from people who had no wealth.

"That impressed me," Harpole says, recalling that at an early annual meeting "an older gentleman came up to me, put his hand on my shoulder and said, 'Sonny, I've invested my retirement savings of $4,000 in your stock, and I am counting on you to make the company go.'"

Unlike his partners, Harpole had committed himself to five years with Pentair to do just that, make the company go. "I had decided when we started up the company that I would give it five years, no matter how tough it got."

Had he known just how tough it would get, he says, "I probably would not have started the company. I certainly would have started with more capitalization, although I believe too much capital has hurt companies as much as too little. Having little capital is good discipline."

Harpole himself is an unusually disciplined executive. Board chairman since the company's shaky beginning, Harpole, now 64, still working in rolled-up shirt sleeves, has lofted Pentair into an orbit of success. It has 4,800 employees, and its revenue last year hit $545 million. Net earnings: $20 million.

Harpole has done it in fields he knew nothing about—paper mills and power tools. Pentair today owns Wisconsin Paper Corporation in Niagara, Wis., Flambeau Paper Corporation in Park Falls, Wis., Miami Paper Corporation in West Carrollton, Ohio, and the Port Huron Paper Corporation, which has plants in Port Huron, Mich., and Detroit.

"We substitute sweat equity for dollars," says Murray J. Harpole, chairman of Roseville, Minn.-based Pentair, Inc. Harpole's commitment to his company won him a place in the Minnesota Business Hall of Fame and its award, the eagle on his table.



PHOTOS: STEVE WOIT—PICTURE GROUP

Because paper prices are volatile, Pentair has diversified by purchasing Porter-Cable Corporation of Jackson, Miss., and Delta International Machinery Corporation in Pittsburgh, both tool and machinery manufacturing firms.

All the properties, Harpole points out, were "underperforming when we bought them. We look at things other people want to get rid of. We substitute sweat equity for dollars," he says.

Sweat, in Pentair's early years, was not enough. After being grounded in the balloon business, although it did sell some balloons to the government, the company in 1967 grasped at a plastic canoe company next door to the Pentair plant. It was going broke, so Pentair bought the mold, hoping to boost revenues.

"But we had money trouble from the start," Harpole recalls. "We made the canoes in the winter, shipped in the spring and didn't get paid until summer."

After selling about 1,000 canoes, Pentair searched for another product. Across the Mississippi River in

Friendly Takeovers

Pentair began with a disappointing atmospheric balloon contract, a troubled plastic canoe company and a leatherwear business that had already cashed in on a waning fad.

Today President and CEO D. Eugene Nugent (left) and Harpole are building a $4 million paper mill in Duluth, Minn.



Spooner, Wis., it found a leather business that was cashing in on a fringed jacket and moccasin fad. The owners, a couple in marital trouble, sold to Pentair a few months before the demand for such Indian wear dropped off. Pentair was back on the streets.

Harpole was on his own. For by this time the cofounders had left.

Two years into his commitment to Pentair and with only $10,000 left in the coffers, the tenacious Harpole in the summer of 1968 found another teetering firm—a paper mill in Ladysmith, Wis., losing money making single-ply toilet tissue.

The mill's owner would take $10,000 down, $20,000 at the end of the year and 5 percent of the net for the next five years. In exchange, Harpole's Pentair had to assume the mill's $1.5 million debt.

Harpole bought. In three months he smoothed out the mill's labor problems, refurbished its machinery and was turning a profit. "I always figure that if you work hard, more good things will happen to you than bad things," he says.

Before the year ended, Pentair signed a three-year contract with Procter & Gamble to make wadding for a then experimental product—Pampers.

Before the contract ran out, Harpole scooped up another mill—in Niagara, Wis. "The mill had labor difficulties, and it was making coated paper for which demand had been dropping," he says. "Larger companies weren't interested in buying it. So we got, for $100,000 down, a plant with a book value of $21 million and debts of $5 million."

For a change, Pentair got lucky. Demand for coated paper picked up. Meanwhile, Harpole smoothed out the labor problems, updated the machinery and in August, 1971, five months after purchase, had the plant running seven days a week.

"My engineering background was helpful in these acquisitions because we were buying facilities that weren't doing well and needed technical knowledge," Harpole says. But he also was developing a successful administrative philosophy of "acquire, turnaround and manage."

The corporate headquarters, in St. Paul's Roseville suburb, is a rented seventh floor in an older office building. Only 28 employees staff the office, most of them clerical.

That austerity extends to management style. Pentair's top managers drive themselves to work, have no company plane and, if all are as single-minded as Harpole, use pencils down to the stub so as not to waste any of the stockholders' money.

That concern for stockholders goes back to Harpole's first year with Pentair, when the company sold stock. He says:

"People with money, the sophisticated investors, had no interest in us. The ones we were able to sell shares to were garage mechanics, secretaries, truck drivers, teachers, people with lesser financial means.

"You got the feeling that some of the smaller people in this country have more faith in the private enterprise system than do the sophisticated ones."

In turn, Harpole has more faith in stockholders than in many of the sophisticates, particularly those involved in corporate takeovers. And Pentair, starting in 1974, has been the target of several takeover attempts.

"I am not opposed to the friendly acquisition of businesses when the owners want to sell," Harpole says. "It is the unfriendly takeover, where the corporate raider's primary objective is strictly selfish—to make a great deal of money quickly—that is abhorrent."

To Harpole, such takeovers are unfair. "Because they provide short-term gains for a few at the expense of long-term benefits and stability, they tend to destroy the confidence of our people in the free enterprise system, and their short-term focus discourages investment in research and development and in new facilities, thus increasing the nation's vulnerability to foreign competition." He blames the upsurge in such takeover activity on "the financial climate at this time, which places a premium on short-term profits over long-term investments."

In acquiring its paper mills and tool companies, Harpole says, Pentair would search for a business that was for sale and then ask itself not only whether it was affordable but "what can we bring to it?"

It is an approach Harpole is using to find another industrial tool company as he tries to steer Pentair toward "$1 billion annual sales by 1990."

Before then, however, Pentair will have a new board chairman. Harpole believes in forced retirement at age 65, and he will reach that plateau late this year.

Remaining aboard as a director, Harpole will help incoming chairman D. Eugene Nugent, 59, complete Pentair's first venture at building a paper mill from the ground up. The firm last year joined with Minnesota Power Corporation to build a $400 million mill in depressed Duluth.

Knowing their founder's personal traits, incoming chairman Nugent and other board members will certainly pluck another Harpole secret—tenacity. For it is inconceivable that even the most brilliant entrepreneur could build a company from plastic canoes and leather moccasins into annual sales of a half-billion dollars without tenacity. ■

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Co-anchors Meryl Comer and Carl Grant

COMMENTARY

Editorials

The states have done a responsible and effective job of operating workers' compensation programs.

The Record Shows Why Federalizing Workers' Compensation Won't Work

Proposals for new federal programs usually have an air of uncertainty about them. Both sponsors and opponents are often not really sure of how they would work out.

There should be no such doubts about organized labor's recommendations for bringing workers' compensation programs under federal control. There are ample precedents for evaluating just what would happen if the compensation system were shifted from state jurisdiction.

Those precedents argue forcefully for leaving the responsibility in the hands of the states.

The federal government became involved in workers' compensation through the Longshoremen's and Harbor Workers' Compensation Act. This originally provided coverage only for dockworkers who did not come under any state plan, but it has been expanded to cover many workers whose jobs have only a tenuous connection with harbors.

As a result of federal administration, employer costs are as much as seven times those of state programs providing similar coverage. Employers in one New York group pay premiums of $92 for every $100 of payroll.

Another model for a federalized workers' compensation system is the benefits program established to compensate miners suffering from black lung disease.

This was to be financed by heavy taxes on coal. But Congress established such liberal requirements for collecting benefits that the program now has a deficit of more than $1.5 billion, and general revenues are being used to make up the difference.

Though advocates cite the plight of miners unable to work because of impaired lungs after many years in the mines, others point out that 9 out of 10 claims for benefits are not backed by medical evidence and that many beneficiaries are still working full time as coal miners.

A U.S. Chamber of Commerce analysis, based on the actual performance of compensation programs run by the federal government, shows that a federalized system for all workers could boost employers' costs from the current average of $258 yearly per employee to $2,580.



PHOTO: DAVID VALDEZ

On the other hand, the states have done a responsible and effective job of operating workers' compensation programs, updating them as necessary. This has been particularly true in recent years as reforms have been made to recognize emerging issues connected with occupational diseases.

Leaders of organized labor say the Longshoremen's and Harbor Workers' Compensation Act and the Black Lung Benefits Program offer precedents for moving to a federalized workers' compensation system.

They really offer precedents for *not* turning to federalization.

Putting PACs In Perspective

The PAC-bashing season has begun.

With congressional elections scheduled this year, and preliminaries already under way for the 1988 presidential elections, political action committees are coming under intensified attack. The principal complaint is well known: These committees are mostly tools of monied interests determined to control the political process.

As a result of such allegations, legislation has been introduced in Congress to impose additional restrictions on PACs. Consideration of such proposals must begin with a look at the actual situation.

A survey by business organizations seeking an accurate picture of PAC giving found that, in the 1984 congressional elections, political action committees made up of corporate employees contributed an average of $295 to House candidates and $1,103 to Senate candidates. Federal election law permits contributions up to $5,000 per candidate.

The average employee contribution to those committees was $112 a year; more than 60 percent of the contributions were under $100.

Rather than dominate congressional election campaigns, PAC contributions represent only a quarter of the campaigns' total financing.

It is also important to remember that political action committees are by no means a united force supporting the same candidates and the same goals. There are PACs on both sides of every election battle and every controversy over public policy. The business-related groups represent just one of many competing forces.

Some contributors prefer to use the PAC process. Some prefer to channel their contributions through other types of organizations. Some like to give directly to the candidates.

Whatever the approach, the source is the same—voluntary donations from citizens who want to be involved.

Legislation to curb PACs further should be considered in that light.

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